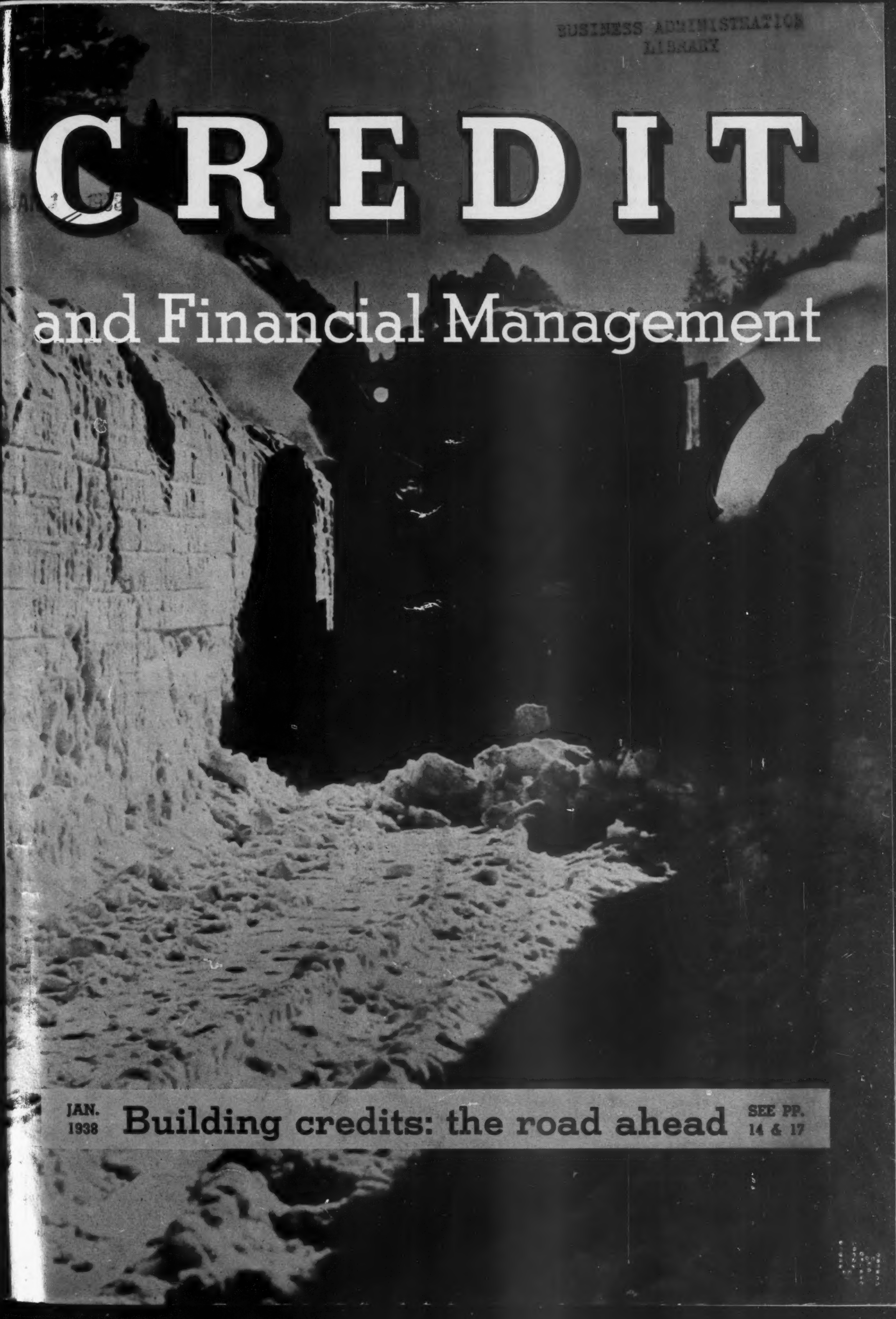
CREDIT

and Financial Management



JAN. 1938

Building credits: the road ahead

SEE PP. 14 & 17

Bus. Adm.

Burroughs

SHORT-CUT KEYBOARD

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ALL CIPHERS ARE AUTOMATIC

SEVERAL KEYS CAN BE DEPRESSED AT ONE TIME

ENTIRE AMOUNTS CAN BE WRITTEN IN ONE OPERATION


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            *
     2 5.6 0
       5.0 0
       4.5 0
     1 0.6 7
   3 1 5.2 5
       3.9 0
     1 0.4 0
 6,7 1 2.7 0
       5.9 0
     4 8.4 5
       2.5 5
     3 0.0 0
       4.7 8
   3 5 0.0 0
     2 4.5 0
       1.4 5
       6.0 0
     3 0.6 5
     2 5.0 0
 7,6 1 7.3 0 *
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FOR EXAMPLE—YOU SAVE

69 OPERATIONS

in listing and adding these 19 typical amounts

Take the above as an example of how thousands of needless operations can be eliminated by the Burroughs short-cut method. The amount 25.60, for instance, was listed and added by depressing the 2, 5 and 6 keys and the motor bar *all together, in one single operation,* instead of writing one figure at a time. The amount 6,712.70 was listed and added the short-cut way in two operations instead of seven. Thus, the short-cut method saves operations in writing any amount.

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BURROUGHS ADDING MACHINE COMPANY • DETROIT, MICHIGAN

CREDIT

and Financial Management

Contents for January, 1938

Cover photograph from PHILIP GENDREAU.

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Faith

Three hours to idle away in a far-Western town. Up and down Main Street I strolled. The Main Street was without character. Garish chain store fronts in monotonous rows. Occasionally, an individual shop attracted my attention. I passed close to the plate glass front to take a look at the proprietor. He might be worth appraising.

Perhaps the outskirts of the town might be more attractive. Why not try? I circled the village once, then again and a third time. Nine churches I counted. Six in dilapidated condition—abandoned. The shutters hung desperately to their last hinges. The front steps parted company with the sills. Broken windows. The rotting eaves housed the sparrows with their untidy nests sprawling all over the cornice.

I asked about the community. The population, I was told, had not varied a great deal in the last forty years. My imagination was spurred. Had this been the place of my birth, as it well might have been, no doubt some of the churches now so dilapidated would have been places of worship for my ancestry.

There was nothing to do but go back to Main Street. I thoroughly read and digested every part of the morning paper. It told of a stock crash, of impending conflict in Europe, of internal dissension and strife, of panic-stricken people who were looking towards the approaching winter with misgiving. Instinctively I thought of the six abandoned churches and of the world's unrest. Something went wrong with people. Something we seemed unable to correct.

This nation was carved out of a wilderness by those who have gone before us. They built our country. Our generation has been living and spending from their storehouse.

Was there any connection between their exercise of the virtues of thrift and industry and the nine churches? Did they find something fundamental in religion that convinced them idleness was sin and industry God's labor of love? Did not pioneering ministers preach the virtue of independence and the vice of dependence? Did not the early settlers practice self-denial to build the virtue of modesty and kindle a spirit of happiness? Did they not, in their Sabbath journey to church, feel a sense of comfort in the discharge of a duty their innate soul somehow told them was necessary if they were to be healthy and wholesome.

In times of catastrophe was there not something in their Sabbath training, as they listened to their spiritual leaders, that caused them to go forth anxious and eager to aid those in distress? Wasn't the destruction of their neighbor's barn by lightning or fire an opportunity for them to evidence respect and love for neighbor by joining together in a barn-raising? When the fields of grain were ripe in the neighbor's field, and he lay ill, did they not in some way get the spirit from these six abandoned buildings that caused them to make their neighbor's harvest without thought of sharing for their labor?

Just why did that community have nine churches, all seemingly well-supported, and just why does the present generation find it difficult to support only three? Are these six churches to be abandoned as having been a part of the old order of things?

Suppose they were reopened. Suppose all abandoned churches reopened and the pews were filled each Sabbath day. Would the world be nearer solving its problems? How difficult it is to answer this in the negative! How easy it is to assume that things would be better!

We speak of a balanced prosperity but even as we utter the words we ought to realize that true prosperity calls for a balance of both soul and body.

What is good business? There are many ideas on this. What are good politics? Ideas are even more confused. Suffice to say, nothing is good in either business or politics that doesn't have a sound foundation. Can there be a sound foundation in anything without faith?

Henry H. Heimann

Executive Manager, N.A.C.M.

Fills the bill for credit men because it's *direct*, reaching the right person . . . *rapid*, saving you and your customer valuable time . . . *persuasive*, giving your personality every chance . . . *definite*, securing an immediate answer. • And it fills the till, too, because in most types of business it's been proved an effective means of collecting delinquent accounts . . . discussing credit terms . . . straightening out discount arrangements. • A Long Distance connection usually means a low-cost collection. Credit managers everywhere are favoring the economy of *the present reduced rates.*

AMERICAN TELEPHONE & TELEGRAPH CO. BELL SYSTEM AND ASSOCIATED COMPANIES

Can a firm's size affect

by ARTHUR H. WINAKOR, Statistician, Bureau of Institutional Research, University of Illinois, Urbana, Ill.

Although ordinarily the grantor of short-term credit is not particularly concerned with fixed assets investments, their consumption and replacement, there are a great number of cases where this general rule cannot be followed. These instances are of material importance. Furthermore, the principles involved in them are of such universal applicability to practically all credit risks that the credit man should have a complete understanding of the factors involved.

There are many cases where the entire short-term financial condition is predicated upon policies pertaining to fixed capital investments. Two of these which may be readily brought to mind are (1) the financing of replacements with the possible effect of this upon ability to meet maturing debts, and (2) the relative state of maintenance of the fixed properties, i. e., whether there is considerable deferred maintenance either intentionally or because of forced economic conditions. Either of these factors may materially influence the ability of an enterprise to provide adequately for its payment to short-term creditors.

In an earlier analysis of some of these factors, attention was directed largely towards the influence of fixed asset consumption, fixed asset replacement, and fixed asset maintenance upon the current capital of companies of different types and industries.*

It was found that variations in the types of operations carried on by different industries require differences in the kinds and amounts of productive capital. Differences in trade customs, in credit policies, availability of supplies, length of production or merchandising cycle, and the like, in their turn determine the relative amounts of capital invested in accounts receivables, inventories, and other assets.

In general, the amounts of capital of each type should be determined by the product which the company manufactures or sells, the manner in which it seeks to manufacture or sell it, and by certain inherent requirements of the product itself which determine whether the investments in fixed properties shall be small or large.

Not only are the fixed capital variations among companies in given industries largely determined by factors not entirely under the managements' control, but even within the same industry there is wide latitude for variations among companies of the same size and of different sizes.

Concerns of the same size may follow divergent manufacturing or selling processes, and may therefore require markedly different amounts and kinds of fixed capital. Furthermore, when concerns of different sizes, even within the same industry, are considered, important variations are found, not only in the actual amount of fixed capital as well as current capital, but also in the relative amounts.

The small enterprise in a given industry may have less fixed capital than its large competitor both relatively and absolutely. Frequently these differences are attributable to the fact that small enterprises do not endeavor to perform all the process of manufacture or selling conducted by their large competitors. Certain expensive processes may be omitted by the small enterprises which rely upon materials suppliers or other concerns with specialized operations to conduct these operations for them more economically than they themselves can perform them. The small enterprise is thus enabled to operate with a small capital.

On the other hand, the large company is able to employ expensive and specialized machines to reasonable capacity. This difference may force the small concern to forego many stages in production or else to use methods of production not involving such heavy and expensive and specialized machines.

Because of factors such as those suggested above, it is natural to find significant variations in the types and amounts of capital employed by companies of different sizes. This is true not only in industry in general but also even within any specific industry.

In this discussion, the problem is to show why these fixed capital and current capital variations are important and how important they are to short time working capital problems. This concerns the credit man who must gauge the credit risks presented to him for appraisal.

The entire problem revolves about the fact that fixed properties are purchased for the utilities which they are capable of contributing to future production of goods and services. Although there is considerable risk in such a venture of capital in fixed and specialized forms, there is the probability that in the long run it will pay for itself and in addition aid in yielding a profit.

In the ordinary processes of production, these fixed properties are worn out and consumed; their financial values are gradually consumed and transmigrate to the goods and services which they create. Thus productive consumption of fixed properties converts their financial values from fixed assets into the form of goods and services as inventories and current assets.

With the productive employment of fixed machinery, buildings, and equipment, there is a gradual transfer of economic and financial values to goods in process, finally into sales, and cash. In essence this consumed portion of fixed assets that is recovered in the sale of the merchandise or service is the replacement fund for the worn-out fixed assets.

The matter of when and how these fixed properties shall be replaced is a

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* *"Latent Capacity to Pay Current Debts," by Arthur H. Winakor, Credit and Financial Management, June, 1937, p. 13 ff.*

its debt payments?

discretionary one for the management. If the business outlook is unfavorable, replacement may be deferred. If new machines will cost less than the old, then only part of the fund may need to be reinvested; the balance may be retained in working capital. Perhaps the fixed assets are relatively new and the replacement fund is to be accumulated in the form of current assets until the need for replacement arises several years later. Should there be heavy debts maturing, the replacement fund may be employed for their payment until the financial condition warrants new outlays in fixed properties.

There are a number of other possible uses of such funds. For the most part they revolve around the management's discretion, the age of the fixed assets, and policies for fixed asset replacement or expansion. A knowledge of such policies may thus prove indispensable to an adequate appraisal of the company's credit status for short-term loans or merchandise sales on account.

Naturally, it cannot be assumed that the consumption of fixed assets, and their conversion and recovery as current assets, is the same for all industries and all sizes of companies. The importance of such a replacement fund will vary in proportion to the amount of the fixed assets, their rate of productive consumption and recovery, and the size of the current assets and current liabilities of the company.

In order to gain a tangible picture of these relationships a few facts have been analyzed according to size of company from data of all corporations reporting tax returns to the Bureau of Internal Revenue. Altogether data for 388,564 companies are in this table.

As a first step in appraising the importance of fixed asset consumption to debt paying ability for companies of different sizes, it will prove helpful to understand the inherent variations in the current capital and debts of these companies. In Table I, three ratios are presented for various sizes of companies when classified on the basis of their total assets. These three ratios tell what proportion of the total assets are invested in current assets, what proportion of total assets are owed to current creditors, and what the net working capital amounts to in comparison with total assets.

The first column of Table I analyzes the current assets. For all the corporations the current assets were 29.2 per cent of total assets. Among the companies of different size, however, the relationship varies greatly. Corporations with less than $50,000 of total assets had almost half (48.2 per cent) of their total assets in the form of current assets. There is a gradual decline in the percentage of current assets as the size of company increases.

At the extreme for large concerns, namely, those with total assets of $50,000,000 or over, the current assets constituted less than one-fourth (24.5 per cent) of the total assets. On a relative basis, the smallest companies had twice as much current assets as did the large concerns. Although this situation varies among industries of different types, it is typical of most of them.

Small companies are thus favorably situated in their relative amount of current assets; they have, however, the more than compensating limitation that their current liabilities are also larger (compared with current assets or total assets) than those of large companies. In fact their current liabilities are even larger in proportion to their size than those of the large companies. Current liabilities averaged 7.2 per cent of the total assets of all companies, 34.2 per cent for the group of smallest sized companies, and only 4.0 per cent for the group of largest companies. Here again there is a gradual decline in the ratio for current liabilities to total assets as size of company increases.

The net result of these variations is that the small concerns have a severely smaller net working capital relative to total assets than have their larger competitors. As shown in column three of Table I, the net working capital ratio increases rapidly with size of enterprise up to the companies of over $1,000,000, then declines but moderately. Although the large companies have relatively smaller current assets than the small concerns, they had even smaller current liabilities, and consequently have a larger margin of current assets as well as net working capital to assure payment of maturing obligations.

With these variations among concerns of different sizes in mind, it will be easier to understand certain of the factors explaining why large companies are frequently more favorably situated than the small in ability to pay.

As was mentioned in earlier paragraphs, a significant variation among

Table I

Relationships of current assets, current liabilities, and working capital to total assets of all corporations classified according to size of company, 1933.

Total Assets Size Group (000 omitted)	Percentage of total assets		
	Current Assets	Current Liabilities	Working Capital
Total	29.2	07.2	22.0
Under 50	48.2	34.2	14.0
50 to 100	41.3	23.8	17.5
100 to 250	38.7	19.2	19.5
250 to 500	37.5	15.1	22.4
500 to 1,000	36.6	12.3	24.2
1,000 to 5,000	35.0	09.5	25.6
5,000 to 10,000	32.6	07.7	24.9
10,000 to 50,000	30.4	06.2	24.2
50,000 and over	24.5	04.0	20.5

Source: Statistics of Income for 1933, p. 160.

Table II

Relationships of depreciation and depletion to current assets and current liabilities of all corporations classified according to size, 1933.

Size (000 omitted)	Percentage of depreciation and depletion to	
	Current Assets	Notes and Accounts Payable
Total	04.7	18.9
Under 50	07.0	09.9
50 to 100	05.9	10.3
100 to 250	05.3	10.7
250 to 500	04.7	11.6
500 to 1,000	04.4	13.1
1,000 to 5,000	04.1	15.1
5,000 to 10,000	04.3	18.2
10,000 to 50,000	04.7	23.3
50,000 and over	04.7	28.6

Source: Statistics of Income for 1933, p. 160.

large and small concerns is to be found in the size of their fixed assets, fixed assets consumption, and recovery of the replacement fund, and their discretionary policies for fixed asset replacement or the reinvestment of the replacement fund. Not only do the large concerns make a better showing in regard to their small current liabilities, but the flow of funds from fixed assets into current assets and available for debt payment is much more favorable for the large than the small concern. This is demonstrated by the facts in Table II.

The data contained in Table II are for the same companies already discussed. The annual sum of depreciation and depletion, representing fixed asset expiration is compared with the current assets and the current liabilities according to size of company. This comparison makes possible an appraisal of the importance of the potential replacement fund. Although the sums charged for depreciation and depletion are not always the same as the amounts recovered in current assets after the sale of the products or services, they nevertheless, provide a reasonable measure of the replacement fund among different sizes of companies. Furthermore, accounting and business practices tend to see that this fund is recovered or retained from operations, even though it is only in part productively transmigrated into goods and services.*

For all the companies together, the annual depreciation and depletion amounted to 4.7 per cent of current assets. With the exception of companies of $250,000 of total assets or less, the percentages ranged between 4 and 5. For the smallest companies it approached 7 per cent. The conclusion to be drawn here is that the annual replacement fund from depreciation and depletion is small when compared with the current assets. Furthermore, the small companies were found to have an advantage over the large.

A sharply different situation is provided by the second column of Table II. Here the comparison is between the annual replacement fund from fixed asset consumption and the current debts of these companies. This fund amounted to 18.9 per cent of current debts for all companies. It ranged from a low of 9.9 per cent for the smallest companies to 28.6 per cent for the largest. There is a steady and marked increase in this ratio as size of company increases. This showing is attributable in part to the facts pointed out in Table I, that current liabilities decline in relative size as the total assets of a company increase.

From these data it is reasonable to conclude that under certain circumstances, reasonable in themselves, that the larger a company, the more favorably situated it is likely to be for repayment of current obligations. This is attributable to two main factors, first the relatively smaller current debts of larger companies, and second, the much larger (relative and absolute) fund flowing from fixed asset consumption into working capital and available for debt payment if needed.

In order for this situation to hold good, the company must earn or recover its depreciation and depletion by productive use of fixed assets. Once this is accomplished, there is the discretionary use of this replacement fund by management. Although this fund cannot be diverted from fixed asset replacement indefinitely without impairing productive capacity and efficiency, it may be held in the form of cash or current assets for several years without danger to operations, and with advantage to current creditors. This was demonstrated by policies of many corporations during 1930 to 1933.

Then, too, the factor of depletion for oil, iron ores, copper, timber, clays, and other natural resources is more favorable to the large concerns. Such resources are more frequently owned by large than small companies. Their replacement fund usually is subject to greater discretion as to its use than that for ordinary machinery and buildings.

Finally, the large fixed assets of large companies affords considerable variability as to the extent of repairs and general maintenance. A large concern with large fixed assets might husband cash resources and pay current debts by deferring for a while certain repair expenditures.

* For detailed discussion of this point, see Bulletin No. 49, *Maintenance of Working Capital of Industrial Corporations*, Bureau of Business Research, University of Illinois, Urbana.

Telling the time

The time of day I do not tell,
As some do, by the clock,
Or by the distant chiming bells
Set on the steeple rack,
But by the progress that I see
In what I have to do.
It's either Done o'Clock to me,
Or only Half-Past Through.

—John Kendrick Bangs
in "Profit".

Depression?

Inflation?

Recession?

by MARCUS NADLER, Consulting Economist, Central Hanover Bank & Trust Co., New York

Due to the political and economic uncertainty prevailing throughout the world, opinion concerning the future of business in this country varies widely. Three different views have developed recently: First, that the country is headed for a major depression; secondly, that the country is headed for inflation; and thirdly, that the country is merely witnessing a minor readjustment, and when this readjustment is over, recovery will continue. In order to determine the future trend of business an analysis of these widely divergent views is necessary.

1. *Depression:* One indication of a serious depression is the existence of over-production. As yet there has been very little over-production in any line of economic activity. Certainly no over-production has taken place in the building industry or in the heavy goods industries. Neither has there been any great accumulation of inventories. While it is true that inventories today in some lines are larger than they were a year ago, the commitments made by distributors are substantially smaller than they were last year.

A second danger signal is the over-expansion of capital. No over-expansion in the capital market is evident today. As a matter of fact, whereas during the period 1920-1930 new capital used for productive purposes amounted to $250,000,000 per month, during the first eight months of the present year this amounted to only $100,000,000 per month. While the volume of bank loans has increased during the past year, it is still substantially below the level of 1926. Thus, it is apparent that the conditions in the United States do not warrant a major depression. Nothing has been overdone and the conditions which usually prevail before a major decline in business sets in, are entirely absent.

2. *Inflation:* Those who believe that the United States is headed for inflation base their argument primarily on the facts that the dollar may be further devalued, that the budget deficit is very large and has resulted in a sharp increase in the public debt, and that bank deposits and excess reserve balances are huge.

Regarding the devaluation of the dollar, I personally, do not share the view of those economists who maintain that a devaluation of the currency must be followed by a corresponding increase in commodity prices. Devaluation was carried out by practically every country to approximately the same extent and the gold obtained by the various governments through this devaluation was not used but was sterilized in one form or another. The fact that commodity prices declined so sharply from the peak of the present year is a clear indication that commodity prices are determined first and foremost by demand and supply and that the cost of production is an important element in the price structure, particularly in manufactured goods. Devaluation, therefore, need not necessarily exercise an inflationary influence in the United States.

The deficit of the budget is the most serious problem confronting the nation. No country can remain healthy if the government does not live within its income. However, a budget deficit is inflationary only when it is met through the sale of government bonds to banks, thereby creating deposits. When the bonds are sold to others than banks, no new deposits are created and only a change in ownership of the deposits is effected. During the last year the banks purchased few government securities. On the contrary, they have sold government bonds and it is unlikely that they will buy any appreciable amount of new government securities in the future. Although there is still a large budget deficit, and in all probability it will be even larger than the President predicts, the following facts should be borne in mind.

First, the Social Security taxes are being used not to retire government bonds outstanding, but rather to meet government deficits. The income from these Social Security taxes increases steadily each year and thus the government has a source of income from taxation to meet its expenditures.

Secondly, the sale of savings bonds (Baby Bonds) amounts to approximately $30,000,000 a month and affords the government an additional means of meeting the deficit without having recourse to new financing. Unless the United States Government engages in a huge rearmament program similar to that being carried out in Great Britain, or unless the United States begins to subsidize housing construction on a large scale, there is valid reason to believe that the government will not need any new money to meet its deficits. Hence, while as stated above, the deficit of the government is a very vital problem, its inflationary influences are not prevalent at the present time.

The large amount of deposits and of excess reserve balances do constitute a potential danger of inflation. However, as is evidenced by the slow turnover, individual owners of these deposits are not using these funds and the banks are not utilizing their excess reserve balances. Thus for the immediate future, there is no danger of inflation in the United States unless, of course, the President utilizes the powers granted to him by the Thomas Amendment to the Agricultural Adjustment Act to issue $3,000,000,000 of paper money. For the time being, however, such action is very unlikely.

III. *Intermediary Recession:* Personally, I am of the opinion that the United States is at the present time witnessing a recession in the business cycle such as was witnessed in 1924 and again in 1927. The present recession was brought about by the sharp increase in prices, by the accumulation of inventories, and by the sharp increase in the cost of production, particularly of labor. If this recession had not set in we would have had a spiral movement between prices on the one hand, and labor on the other, with a decrease in the purchasing power of the dollar. While the recession is painful, I believe that it is wholesome and that it will lay the foundation for further recovery in the heavy goods industries.

What's ahead for business in 1938?

by J. W. SPANGLER, Vice President, Seattle - First National Bank, Seattle, Wash.

Not unknown to our readers is the author of this article. He has been Secretary and then President of the Seattle Association of Credit Men and later a Director and Vice President of the National Association of Credit Men. In the latter post he was the first man from that city to receive national recognition. Currently, he is a member of the Board of Directors of the U. S. Chamber of Commerce and recently he represented that organization in the joint Foreign Trade Conference between this country and Canada. This article is based on an address in October before evidence developed that the government is somewhat desirous of adopting measures to relieve business. But the pith of this discussion is untouched by recent developments. It is worth reading twice.

What do we mean by "business"? The man in the street, and even many who are actually a part of the vast group comprising business have in the bewilderment prevailing during the past few years, come to regard business considered as a whole as representing a gigantic combined agency which has contributed substantially to the deranged conditions against which this country has contended and is still contending, and not as Merle Thorpe, the able Editor of Nation's Business so aptly states:

"American business as a whole is simply the total of the thousands of businesses we all know, and in which most of us are engaged. It is not an ogre in another state."

Business in reality is made up of the little community grocery store, the shoe dealer, the big department store, the restaurant, the steel manufacturer, the bakery, the automobile manufacturer, the local cross roads general store and the railroads, all engaged in barter and exchange of goods, labor and services.

In the confusion, turbulence and terror subsequent to 1929 we, the American people, ever emotional and intemperate under stress, again lost our poise, forsook proven fundamental economic principles, abandoned the doctrine of thrift and industry and accepted proffered refuge in a form of alleged benevolent governmental redemption which, if accomplished, will be at the price of the very existence of the business and industry upon which the prosperity and happiness of all depends.

Excessive and multiplied taxation, various forms of regimentation, social relief, war and rumors of war, government competition with private capital of its citizens, labor—industry strife, inter-union jurisdictional controversy, tampering with the Supreme Court, threats of dictatorship, and a score of other realities are both here and ahead for business.

The complete withering effect of these has not yet been fully experienced. General business today, measured in terms of volume and to some extent profits, is greatly improved.

When both evolution and near revolution are exerting an influence upon our lives and practices, it is easy for us to be critical. When a state of confusion prevails in every department of life's activities, such as we have witnessed since the fall of 1929, it becomes difficult to value all of the influences concerned and intemperance of expression and hasty judgment are invited.

No fair estimate of what has been done to relieve our situation would condemn all of the measures employed to that end, nor can it be expected that any human agency could be free from error in attempting to cope with such complexities as have beset us. Our present consideration should be the selection of means that will reasonably insure the perpetuity of business having due regard that the means applied to this end shall not do violence to our business, industrial, political and social order.

Americans are notoriously intemperate and immoderate — God bless them all. Under confusion and distress their impulsive characteristics result in rushing from one extreme to another, but usually in the end a fairly temperate and intermediate position is taken.

Just now we appear to be again at one of these extremes and there are those of high standing who declare that revolution in government is actually pending, through a centralization of executive authority calculated to create the equivalent of a dictatorship under a less offensive and less alarming title.

Since there has been so much and so frequent reference to trends in the direction of dictatorship, may I, with no intent to discuss the merits of the proposals, present to you briefly just how this trend is manifest to those who assert its existence?

It is chiefly represented by certain legislative proposals advanced and recommended by the present Administration to the previous session of Congress, and which, if passed, would

result in greatly increased centralization of power.

They are:

1. A bill providing, among other things, for the reorganization of the executive department of the government—creating a secretariat of six members—creating a national planning board—all responsible to the President alone.

2. Wage and hours bill—creating a labor standards board of five, appointed by the President and clothed with extraordinary authority over industry.

3. A bill providing for water and flood control—creating seven regional authorities encompassing the country and extending vast authority over agriculture and power activities.

4. The bill relating to the Supreme Court and its proposed enlargement, etc., with which we are all familiar.

Space limitation forbids more than the briefest comment upon the proposals enumerated, but inasmuch as few of us are definitely informed as to the alleged threats to our present form, I am justified in saying, in the interest of fairness and moderate clarity, that the first of the President's proposals would make the independent offices of the government, the quasi-judicial agencies, such as the Interstate Commerce, the Federal Trade, the Tariff and the Securities and Exchange Commissions and the like, subsidiary bureaus under the dictation of various offices in the Executive Cabinet.

Transfer, abolish, or consolidate bureaus and agencies.

Dominate the already attenuated Civil Service.

Create at least two new Cabinet offices.

Appoint six Presidential assistants, "with a passion for Anonymity."

Abolish the General Accounting Office, the independent audit agency set up by Congress as a check on the expenditure of monies appropriated by Congress for the specific purposes set out in appropriation bills and to transfer that function to the Treasury Dept., a subsidiary of the Executive.

Create a new audit bureau to report to Congress how the money it appropriates is spent, *after it is spent;* in other words, a post-audit rather than a pre-audit check on public expenditures.

It contains a provision for a federal agency to effect the utilization of both "human and natural" resources, which by some is interpreted as an extension of regimentation, and it is also boldly asserted by some that the reorganization recommended is not in the interest of economy and efficiency as has been stressed, but is primarily for furthering increased centralization of executive authority.

The second proposal—the so-called "40 cent—40 hour" legislation, would, it is asserted, result in price increases, lessen consumption, increase unemployment, and fetter business and industry.

Concerning the third item — frequently designated as water and flood control measure—it would divide the country into seven areas with the control of water resources presided over by a federal administration similar to the Tennessee Valley Administration. The experience with the T.V.A. suggests an extension of government competition with private business.

Respecting the Supreme Court proposal, no comment from me is required.

Old Masters

Will the bears keep driving the bulls and lambs in 1938 or will the bears be forced to retreat?

These brief references are made to indicate that those alleging dictatorship intents, consider that there exists a foundation for their fears and viewed in its entirety a dismal prospect is indicated.

The whole world is in fomentation. Changes in forms of government have been frequent and it becomes incumbent upon you and me as individuals and as groups to resist the imposition of measures calculated to rob us of the blessings of liberty heretofore guaranteed to us under the constitution.

We do not want regimentation in labor or in industry, nor do we want individually to be deprived of the proper rewards resulting from individual effort and achievement.

My personal view is that because of the prevailing human characteristic of selfishness it is unwise and unsafe to lodge too great a measure of freedom of action in any individual or group without some measure of accountability to a higher authority, but this does not mean regimentation (*Cont. on page* 31)

When Credit Interchange moves in—

by A. W. SANDE, General Credit Manager, John Lucas & Co., Inc., Philadelphia, Pa.

Hon. Homer S. Cummings, the intelligent and capable head of the Department of Justice, has been giving vigorous voice to the old, old adage: "An ounce of prevention is worth a pound of cure." Insistent public demand for a movement to eliminate crime at its source—childhood environment—is aiding Mr. Cummings in his courageous fight for the coordination of the efforts of cities, counties and states under a Federal Bureau of Crime Prevention.

In 1900, in just such a manner, the first Credit Interchange Bureau was installed for the prevention of excessive credit losses at their source—lack of accurate, up-to-date, complete ledger information.

By 1920 the popularity of exchanging ledger experiences became so great that a National Credit Interchange System came into being under the auspices of the National Association of Credit Men, with an initial chain of twenty bureaus and 1,500 subscribers to the services; organized to disseminate without profit the ledger experiences of practically every type of creditor on any given customer, whether that customer would buy from a hardware manufacturer in Texas or a drug manufacturer or wholesaler in Rhode Island.

The amazing thing about it all is that today in spite of loss in membership during the longest and most severe depression of recent years, fifty-nine bureaus and better than 7,000 subscribers are rendering day in and day out the invaluable service to the nation of accurately recording and disseminating the information as to the pay habits of millions of customers with whom their subscribers do business.

Where else can you in this day and age buy a report on any one of your customers that will range in price from a minimum of 35c to a maximum of 60c for each report, which includes complete information regarding pay habits, developed by this wide-awake, non-profit, member owned, National Credit Interchange System?

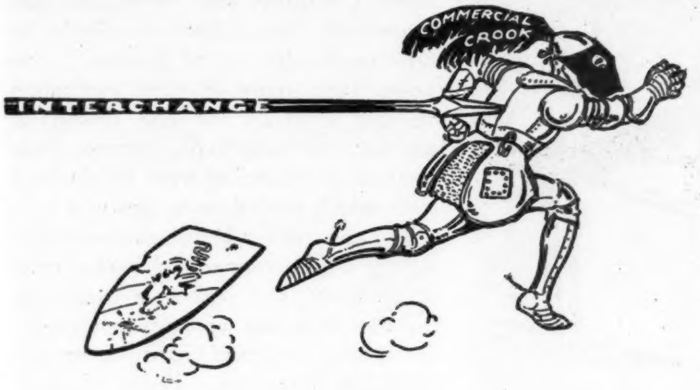
You and I have often heard executives and credit men say, "All I need is an accurate, up-to-date financial statement to determine the condition of my customer's business." Well, that's true to a degree if one can obtain them; but if all of us were to check our credit files tomorrow we'd find this startling condition, that very few of them are in file or can be obtained. Now suppose that we are successful in obtaining all the financial statements that we need. Would even that condition be sufficient insurance against excessive credit losses? Modern credit men say "Absolutely Not!" The only infallible proof of a customer's ability to pay is the actual up-to-date record of how he does pay.

Some credit men have been heard to say—"I can get all the information I want from my customer's references through direct inquiry." That, too, is a fallacy because hand-picked references do not as a rule include the creditors who are not being paid promptly; neither do they give a complete picture of all your customer's creditors and the amounts of credit granted, with the conditions of the balances stated.

Our experience with direct inquiries in the past was: First, that it was too costly; secondly, too slow; third, inaccurate because of competition and fourth, incomplete. It costs ten times more to send out ten inquiries than it does for one sent directly to the Interchange Bureau. This, of course, includes time, stationery, an average of 6c postage per piece, with the possibility staring one in the face of having to make a second request for information or perhaps a third—depending upon the success of each mailing. It wouldn't be unfair to the "direct inquiry system" to say that the average group of requests for information would cost at least $1.50, as compared with the top price of 60c for an Interchange Report.

Recently I have had the interesting experience of acting in the capacity of Chairman of the Credit Methods & Practices Committee of the Credit Interchange Bureau of Philadelphia. Through this body of men, representing eleven different industries in Philadelphia, several new ideas have developed which will promote a speedier and

the commercial crooks move out!



more complete Credit Interchange Report. The recent surveys of our Committee revealed the amazing swiftness with which the intricate Interchange machinery functions today in the compilation of your Credit Interchange Report.

These Bureaus, all operating on a uniform plan—the best that has been devised to date, are a monument to the men who are unassumingly building, promoting and smoothing out the kinks in this National Credit Interchange System, which I believe in the next few years will be one of the greatest single factors in the protection and perpetuation of legitimate business.

A short while ago I was informed that one of the most important Credit Interchange Bureaus, fostered by the National Association of Credit Men, was being installed in New York City. I have been watching with the keenest interest the development of that most important link in the rapidly strengthening chain of Bureaus, created by and for you and me for the sole purpose of helping us to do a better job of granting credit. The New York credit fraternity is to be congratulated upon this new Bureau, which should prove to be one of the greatest recent events in the history of Credit Interchange.

It means eventually the pooling of all ledger experiences from the various trade associations under one roof. At the same time, it opens the door which leads to the information contained in the ledgers of thousands of other business houses throughout the nation at a cost so low that it is almost unbelievable. It is hard to calculate the tremendous, beneficial influence that this Bureau will have on all the other links between here and the Mississippi River, where greater strength is needed, but one can safely say that the business men of the Atlantic Seaboard can look forward to much greater security for their valuable receivables.

Now, you business men—just think what we could do in the way of constructive credit control if within the next ten years we could get the signatures on Interchange contracts, most suitable to the subscriber, of 75% of the 137,251 manufacturers and 70,032 wholesalers of the country. Inasmuch as 90% or more of today's business is done on credit, isn't it fair to assume that another tremendous factor in the stabilization of business will have been brought about by the addition of many thousand new members, whose ledger experience with their customers would enable us to avoid the pitfalls that yawn before us because of the lack of that information now?

It is very, very certain that if the actual credit losses and the part they play in the cost of our merchandise and the effect they have on employment because of bankruptcies, receiverships, etc., were known, that Mr. John Q. Public would raise such a hue and cry for a law compelling every business house to become a member of a Credit Interchange Bureau that the Congress and Senate would certainly have to work overtime to get that piece of legislation through.

It is time for business executives everywhere to check their own businesses to determine whether or not the life-blood of their business—their accounts receivables—is being properly protected by complete, up-to-date, accurate Credit Interchange Reports. If they find that that accounts receivable insurance, which is what it really is, is not a part of their credit file, then a membership in the nearest local Credit Interchange Bureau should be obtained without delay; and each one should wholeheartedly take an active part in this civic movement to sell, advertise and promote an increased membership and usage of Credit Interchange so that several thousand additional members can become a reality in the next ten years.

Let's get the national and local Board of Directors of the National Association of Credit Men; the national and local Chambers of Commerce; all business associations, and clubs behind this important civic movement. We shouldn't forget that the innocent looking, simple little Credit Interchange Report is our assurance of a truthful, complete and authoritative picture of the character of our customers and their ability to care for obligations.

Let's give Credit Interchange the support and cooperation it so richly deserves in the war against excessive, unnecessary, business-destroying credit losses.

Remember that when the Credit Interchange Bureau moves in—the commercial crooks move out.

Building credits and mortgages

Two major factors of the building industry are demand for property and capacity financing.

At the present time, to a limited degree we have the possible financing, but we do not have the demand. Why is this? In my opinion it is due to fear, which we know is the greatest destroyer of confidence. To a great extent this is justified, as we are constantly reading and hearing of unbalanced budgets, higher taxes, certiorari actions in which the courts are deciding that assessments are too high, which means only one thing, and that is that the present method of assessment is wrong.

According to statements made at public hearings conducted in the New York Senate, real estate comprises one-third of the wealth of the state, produces one-tenth of the income, and pays eighty per cent of the taxes. Is that not sufficient to make the gentlemen of the building industry and of the credit profession realize that they have a real job in order to relieve real estate of some of this burden? Clearly, the reason that real estate is so overtaxed is that it is the easiest asset to tax, due mainly to the fact that it cannot be hidden like many other assets.

There is another condition existing today of which we should not lose sight—one which I think I am safe in saying that no one here has ever seen equaled, as the only times comparable to it are the panics of the '60's and '93, which were not on so large a scale. At the present time our banks, insurance companies, fiduciaries and individuals are the unwilling owners of many properties on which they formerly held the first mortgages.

To what extent this property amounts, I am unable to even guess, but I can give you the figures published by one of our well known statistical services of the 110 largest insurance companies in the United States:

In 1931 their mortgages totaled \$7,441,593,000; real estate totaled \$598,702,000; whereas, in 1936 their mortgages totaled \$4,952,652,000; real estate totaled \$2,045,936,000, or, on a percentage basis, the real estate held in 1936 amounted to 27% of the mortgages held in 1931. I believe you will agree with me that these are quite convincing figures.

Another fact which we must face is that in the '20's we had capacity mortgage financing companies for the larger projects such as hotels, apartment houses, office buildings, etc., for example: S. W. Straus & Co., American Bond and Mortgage Company, Greenbaum Company, title companies, and numerous others, most of which are now practically out of business. The projects of many of these companies became involved for one reason or another, but principally because their methods of financing were set up on a basis which proved to be unsound.

For the smaller buildings there were savings banks, commercial banks, trust departments, and insurance companies for the financing of first mortgages; and second mortgage finance companies for junior financing. Today we have the same sources of senior financing, but there are no second mortgage companies for the junior financing.

You have undoubtedly heard the method of appraising and also the appraisers criticized for the present state of affairs. With the exception of promotional cases, I cannot agree with this criticism. I believe this criticism should be placed upon the shoulders of the lenders because of the manner in which they drew the mortgage, coupled with the method of collection and the lack of an adequate follow-up system to see that the security underlying the mortgage is being maintained in the same condition and degree as at the time the loan was made.

In order to prove that it was the method of making loans and not the appraising that caused the trouble, I am quoting some interesting figures taken from a survey made for a loaning mortgage institution not located in New York. This was made in 1936 and revealed that of the amount of money loaned on residential property which defaulted after 1929, the classifications were:

Percent of loan to appraisal:	*Became troublesome*
Of those under 30%	*46%*
30%—49%	*62%*
50%	*65%*
51%—54%	*57%*
55%—59%	*60%*
60%	*64%*
The average being 61%	

Size of loan:	*Became troublesome*
Under \$3,000	*33%*
\$3,000—4,000	*22%*

$5,000—6,900	*30%*
$7,000—9,900	*37%*
Over $9,900	*45%*

The average being 34%

Year loan was made:	*Became troublesome*
1900	*71%*
1900—1913	*73%*
1914—1918	*64%*
1919—1925	*55%*
1926—1931	*62%*
1932—1935	*74%*

The average being 63%

Reduction and amortization:	*Became troublesome*
Loans increased or unchanged	*65%*
Loans decreased	*62%*
Loans amortized	*45%*

The average being 63%

Amortized loans on the following rates per year:	*Became troublesome*
0.1%	*98%*
1.0%—1.9%	*32%*
2% and over	*12%*

The average being 45%

These figures prove beyond a doubt that our system of loaning money secured by mortgages on the old basis is wrong. Instead of our former practice of making mortgages due one day or one year after date without a plan of payment, we have learned that mortgage loans are no different than any other type of loan, and they must be made on an amortized or partial payment basis if we are to prevent a repetition of conditions as depicted by the foregoing figures.

As you know, it has been customary to loan on the basis of 50% to 60% of the appraised value of the property. However, the Government now has licensed agents under the F. H. A. to loan money under their insured plan. These agencies are permitted to loan 80% of the appraised value of the property provided the loan does not exceed $16,000 and is amortized in equal monthly installments over a period of not to exceed twenty years. The borrower's carrying charge is 6½%; 5% being interest on the loan, ½% collection fee, and ½% insurance fee.

As the insurance is on the maximum amount of the loan, the rate figures one per cent on the average amount outstanding; therefore the 6½% carrying charge. Although it costs the borrower 6½%, it has, however, eliminated the cost which was necessarily added heretofore to take care of the second mortgage discount or financing charges which were usually on the following basis:

	Discount
One year mortgage	8%
Two year mortgage	12%
Three year mortgage	15%
Four year mortgage	18%
Five year mortgage	20%

by R. F. HARRISON, Executive Vice President, First Trust & Deposit Co., Syracuse, N. Y.

The F. H. A. plan is a step in the right direction in that it saves the borrower the finance charge, and gives him a long term mortgage, and it improves the liquidity of the lending institution which has the privilege of borrowing from the Federal Reserve Bank, using the mortgages as collateral security.

This will not solve our problem. We must go further and eliminate fear by the reduction of taxes and the balancing of the Federal budget, which will enable us to plan our personal affairs accordingly.

Although, as stated before, there is a tremendous amount of property now owned by the former first mortgagees, we still have a potential market for new properties if the proper basis of financing can be arranged. A normal building year in the United States provides about 500,000 new dwelling units, whereas in the urban areas of the nation for the first six months of 1937, the number of residential units produced amounted to only 118,597, or about 40% of normal, and compares with 85,160 units for like period of 1936. These figures prove conclusively that, due to the lack of building in the years referred to, there must be a need for a larger number of units to be built in the future.

At this point it might be of interest to quote some figures comparing residential building in the United States with that of England and Wales for the years 1933, 1934 and 1935:

In the year 1933 there were 236,763 residential units built in the three countries, 15.4% built in the United States, 84.6% in England and Wales.

In the year 1934 there were 297,965 units built in the three countries, 10.5% built in the United States, 89.5% in England and Wales.

In the year 1935 there were 408,486 units built in the three countries, 19.9% built in the United States, 80.1% in England and Wales.

Perhaps it would be well for us to take a lesson from our foreign neighbors. For instance, France has a company called Credit Foncier, established 1852, which has weathered two major wars, in one of which France was defeated, and the other (the World War) was claimed by many even more disastrous. However, in addition to surviving these two wars, Credit Foncier has also survived an 80% deflation in the franc, and yet it has never defaulted in the slightest degree. It is my understanding that they finance short and long term amortized mortgages and issue debentures against them which are sold to the public.

In England, it was to the Building Societies that the Minister of Health turned in 1921 to stimulate the growing movement for house purchase by installments. But many persons who were anxious and willing to purchase houses were unable at that time to finance the initial payment.

The Building Societies were prepared to advance 75% of the cost to the credit-worthy purchasers. They found, however, that the number who could pay or finance the remaining 25% was comparatively small, so the Government arranged to supplement the 75% advance with an extra 15% to be made by the local authority in whose jurisdiction the house would be situated. This could take the form either of an actual loan or a guarantee to the Building Society that this addi-

tional proportion of the loan would be repaid.

The Central Government also undertook to bear half the loss in case of default in the payment of this 15%. This initial payment was thus reduced to 10% and the necessity for a second mortgage abolished—so far as the 15% was concerned. Even the initial payment of 10% was found to be beyond the resources of many of the would-be purchasers, so the building industry came forward with an extra facility. In order to secure the contract to build the house, the builder would offer an additional advance of 5%, thereby bringing the total financing up to 95% of the purchase price, leaving the purchaser an initial payment of only 5%.

In all such cases, it was understood that the builder should have priority in the repayment of loans. The figure of $7,500 was fixed as the maximum price to be eligible for this assistance.

In 1935, a Committee known as the Mortgage Commission, was appointed by the Governor of New York State to study our mortgage situation and make recommendations. To date very little has come of this. Unless we do get some relief, it is my belief that we shall see some group with private capital organize a large mortgage bank which will handle the situation with lower interest rates and longer term amortized mortgages.

1. What are present sources of mortgage money?

1. Individuals.
2. Trust Funds—Teachers Retirement Fund.
3. Insurance Companies.
4. Savings Banks.
5. Federal Housing Administration.

2. What per cent of cost can be financed on a single mortgage?

Mortgage lenders prefer not to loan over 50%, although on new building they may in some instances loan up to 66⅔%. The F. H. A. will insure a loan up to 80% of their appraisal.

3. Where can a speculative builder go for financing?

1. Under the F. H. A., an operative builder is eligible to apply for the benefits of mutual mortgage insurance upon the same general basis as the individual home builder. As a general rule, however, there exists a considerable difference in the size of the prospective operations and a basic distinction in the nature of the operations which makes it necessary that greater emphasis be placed upon certain factors and that additional regulations be set forth to carry this emphasis into effect.

2. In some instances, to obtain better return on their savings, individuals are financing limited amounts to some sections for speculative building.

3. Some life insurance companies will accept applications from speculative builders where the project is economically sound.

What about the East—far West—South?

Sirs:

I am very pleased to be able to tell you that about seventy replies have been received to my article in November "Credit and Financial Management." (Pages 16 and 17—The "Junior Execs" and the credit department).

As a matter of fact, they are still coming in and this morning two more were received. Undoubtedly there will be others before the end of the week. This should give you an indication that your magazine is really read by the credit men throughout the country, as you know from surveys published, the small amount of readers who will take the trouble to write.

The responses have been very general. Several of them have emanated from Canada, others from California, Chicago, Indianapolis, and Texas, but, strangely, with the exception of one letter from Atlanta, Georgia, the south is not represented at all.

From the addresses, your magazine, and perhaps the Credit Association is strongest in the middle-West and Rocky Mountain section, for the bulk of the replies are from companies located in that sector.

Thought this would be interesting to you, and you may be sure I personally am more than pleased with the response.

Kindest personal regards.

Yours very truly,

J. F. Welsh
The McCormick Sales Company
Baltimore, Maryland

4. To what extent will mortgage lender try to protect material men?

The lender usually takes a building loan agreement in addition to a mortgage at the time the application for financing new construction is made. The building loan agreement should contain a trust clause whereby the borrower covenants that he will receive any and all advances on the building loan as a trust fund to be applied first for the purpose of paying the cost of improvement. Should the borrower divert the funds, the material men may file a lien against the property at any time during the construction or within a period of four months after the completion of the improvement. The law goes a step further to protect against diverting of funds by providing that anyone committing such an act is guilty of larceny and punishable according to the penal law.

5. Does mortgage lender satisfy himself as to the availability of funds above mortgage to complete building? How?

Yes.

1. By acquiring a financial statement and earning statement of the borrower at the time the application is made.

2. By checking the costs of construction as planned by the borrower.

6. How can such information be made available to material men?

The material men should require a financial statement directly from the borrower before approving any credit. They should also examine the specifications of the building to be constructed and study the cost as outlined by the borrower.

7. What evils present in building credits in the '20's have now been eliminated, and how?

1. Building out of line with person's ability to repay has been eliminated.

2. A closer survey and inspection of the locality in which the building is to be erected prohibits a building to be put up contrary to the physical characteristics of the district in which it is located.

3. A more thorough study by the lender of the original plans and specifications followed by frequent inspections as the construction progresses. This eliminates the possibility of a contractor cutting (*Cont. on page* 33)

SAMUEL F. JACOBSON of Blum & Jacobson, Attorneys, Chicago, Ill., discusses

Legal aspects of building credits

It is indisputable that the credit methods used in the building boom construction era contributed more to the financial collapse of the country than any other single cause. Unfair trade practices, dishonest methods involving fraudulent contractor's affidavits and false statements to bond houses, made by owners and contractors for the purposes of securing cash advances for pyramiding purposes, were a common practice. Making false affidavits was considered a mere formality.

Space would not allow the enumeration of all the credit and collection evils arising out of the building boom era. In fact, they were too well known by everybody in the industry to require repeating.

Manufacturers and jobbing houses were equally guilty of allowing special discounts and competing for the privilege of accepting part of the purchase price of good materials in worthless junior securities. This type of competition increased the losses sustained by labor, the investing public, material men and manufacturers. It created a loose credit situation which enabled thousands of reckless and irresponsible persons who claimed to be builders to build up only a large army of ne'er-do-wells who knew nothing about plans and specifications.

These self-styled general contractors were the carpet-baggers of the boom days. Doomed to failure even before they started most of them have since gone through the bankruptcy wringer, leaving behind a vast number of unfinished buildings and worthless securities on involved buildings. The great number of unfinished structures stand out as monuments to the folly of a reckless credit age and have become the jumping-off places for many who could see no other way out of their financial dilemma.

Are building material men who are still licking their wounds ready to make the same mistakes when the construction industry is revived? Are they again going to forget the nightmare which was responsible for the passage of special bankruptcy laws to meet a chaotic situation as a result of real estate bond crashes?

We find the same group of irresponsible, incompetent carpet baggers now standing by watching for the re-opening of the building activity so they may again step in and take a whirl at the expense of legitimate contractors and material men. As a matter of fact, a great number of these so-called contractors are now figuring on what few jobs there are now available.

There can be no rehabilitation in the building industry unless the old methods are discarded. The challenge to these racketeer operators must be met now before it is too late. When construction is on in full force, executives will be too busy scanning operating figures. They will again overlook the important fact that losses, due to breakneck competition, loose credits, and the failure of the material men or subcontractor to preserve their legal rights in the protection of their accounts re-

Building credit problems were non-existent for the builder of this home when this photograph was taken around 1900 in Idaho's "forest primeval."

ceivables, are dangerous to the industry.

The great number of substantial general contractors who have become insolvent because of uncollectible accounts receivable carried on their books, which should have been prior secured lien claims, illustrates the point. Their lien rights had been waived or traded away for worthless junior securities or unsecured notes. The ease with which waivers were given in return for "blue sky" is reminiscent of the bucket-shop trading days.

Smooth-tongue builders were trading mechanics and contractors out of their first prior liens. The mechanics having their securities taken away from them were unable to pay their bills to the material man who also neglected to protect his lien rights. The contractor is not an ordinary credit risk. His financial statement and the three C's guide are of little value in determining the degree of credit risk. His pricipal factor in paying bills is the extent of his ability to make collections. If he does not get paid he cannot meet his obligations to the material men.

It is impossible to legislate the folly of the credit executive who appraises a credit for the sole purpose of increasing his volume of business rather than on the merit of the project or the degree of risk assumed. We now have sufficient laws on our statute books to amply protect the reasonably careful creditor. As a matter of fact, the greatest losses were sustained by voluntary waiver of legal rights or neglect by material men and subcontractors to take the protection the laws of the state gave to suppliers of building materials.

Betterment of conditions in any industry, particularly protection of credits, comes only after careful plans are put into effect. Prior to the passage of the Bulk Sales Law, False Statement Act, the Bad Check Law or even the simple amendment to the Bulk Sales Law during the last session of the legislation, industry suffered considerable losses because of inadequate legislative protection. These loop holes in the law increased the opportunities of unscrupulous debtors to obtain advantages over their creditors.

It would seem in the light of the recent experiences that the building industry should endeavor to remedy some of the conditions which have obviously proved the most costly to the industry.

How to cut building costs:

Ten helps to lower building costs are outlined by Bernard J. Johnson, Editor of the American Builder and Building Age:

1. Lower financing costs are now available under a single long-term mortgage in place of the old short-term first, second and land contract system.

2. Building sites are now priced for use, not for speculation.

3. Construction costs are cut through increased use of factory-produced units of materials and equipment.

4. Labor costs are cut through increased operating efficiency due to modern tools and power equipment.

5. Lower costs result from use of simplified house designs, planned for stock sizes of materials and parts, and elimination of useless ornament.

6. Economies are enjoyed arising from present vogue for smaller, more compact houses with multiple use of space for sleeping, dining and "living."

7. Savings in fuel costs are experienced from the use of insulation and the employment of other present high standards of construction.

8. Savings in upkeep and maintenance costs result today from better design and use of proper long life materials.

9. Lower sales costs are figured on houses built for sale by operative builders, and a smaller profit margin is being asked by contractors.

10. A way to lower tax costs has been discovered through the "out to the suburbs" and "into the country" movement.

The home builder of today gets the advantage of all these ten favorable factors.

Dollar volume

From a peak of $11,060,000,000 in 1928 the volume of construction decreased to a low of $3,002,000,000 in 1933. It increased to $6,784,000,000 in 1936.

For instance, it is rather strange that Illinois should be one of a minority group of states which make liens inferior to encumbrances created after the commencement of an improvement. There are only five states in the entire Union that fall in that category of inferior lien protection.

The adjoining state of Wisconsin has two enactments to its lien laws, which should be made part of the law of this state. One concerns itself with embezzlement by contractors. The other with the wrongful use of materials. By a simple enactment, Wisconsin and a vast majority of the other States provide that monies paid to a contractor constitute a trust fund in the hands of a contractor to pay all sub-contractors. It is a penitentiary offense to divert the use of this trust fund.

Of course, some of the more alert credit men have been using the trust receipt for waivers of liens delivered to contractors, yet this protection is burdensome and inadequate. Illinois should add to its mechanic's lien law the Wisconsin provision making the mis-use of such a trust fund in the hands of a contractor at least a misdemeanor. It should likewise make it a misdemeanor to wrongfully cause material purchased to be used in a designated building to be moved and placed in another building without the written consent of the material man. These enactments would give creditors two strong weapons to aid in guarding receivables.

The uniform mechanic's lien act which has been approved by the National Counsel of Commissioners of Uniform laws and by the American Bar Association has many unsatisfactory features which would deprive contractors and subcontractors of many rights they now possess. However, one provision it contains should be of great value in protecting the rights of material men. It is a provision for taking a bond from the contractor by the owner which would be an obligation for the payment of all lien claims.

Another loop hole in the mechanic's lien law which has cost material men a great deal because of the inadequacy of protection is the many instances where new fixtures are installed by replacing old fixtures. The burden of proving enhancement of value is now upon the supplier rather than the owner or mortgagee who receives the

benefit of the improvement. This should be clarified with a view of changing the burden of proving enhancement of value to the owner and mortgagee instead of the claimant who has in most cases found himself at a disadvantage.

It is generally recognized that the National Housing Act was a great influence in increasing the volume of building material business. The time selling methods developed under the F. H. A. will no doubt become permanent sales policies. The volume of business obtained through this method of selling justifies the continuance of selling material to owners and discounting the time paper for the contractor. Now that the insurance benefits of the Federal Housing Administration have ended, the risk and the problem to protect this method of selling has been shifted to the material men.

The jobber who sells under conditional sales contract is confronted with a difficulty in the state of Illinois. Under the well known Sherer-Gillett decision the seller of material under a conditional sales contract seems to have a valid secret lien although it is not recorded. This Appellate Court decision has created legal rights under a conditional sales contract without any enactment by the legislature. It recognized a secret lien as against other credit grantors. However, this decision has been of little protection to the building industry. Our courts have held consistently that the conditional vendors claim of title in the material furnished without notice is ineffectual as against a subsequent, bona fide mortgagee of the reality.

From a practical standpoint, courts of equity have made it difficult to reclaim fixtures or supplies covered by a vendor after the appointment of a receiver in a foreclosure proceeding by the mortgagee. In order to definitely establish the rights of a conditional vendor and create a sound market for installment paper issued under a conditional sales contract it is of vital importance that the legislature provide for the recognition of conditional sales contract by definitely fixing its legal statute.

The Stover Company case which went to the Appellate Court is an illustration of the point. The question as to whether or not the simple conditional sales contract amounted to a chattel mortgage which should have been recorded was involved. The lower Court held that refrigerators were attached to the realty and therefore the Receiver took possession of the property on the theory of a lien by virtue of the trust deed. Unfortunately the Appellate Court never passed on this point. The defense was abandoned. The legal question is still in abeyance, and the state law is in confusion without an adjudication of the question by the supreme court.

We have noted a few of the problems confronting the appraising of credit and the need of further protection after merchandise has been turned into an account receivable. Every legitimate jobber, manufacturer, contractor and trade association should be vitally interested in securing for the building industry adequate credit protection. Thousands of contractors, architects and material men will ultimately benefit from the strengthening of the laws pertaining to liens and credit protection. All will receive the advantages of the proposed improvements.

These observations are the result of experience in the handling of millions of dollars of secured and unsecured claims against contractors, builders and owners. As a result of collaborating with leaders of the industry the following program of legislative aid has been evolved.

I

Amend Section 24 of Chapter 82 of the mechanics' liens laws permitting sub-contractors and material men ninety or one hundred twenty days after the completion of work or delivery of material to serve notice of liens on the owner. This amendment would provide the credit man with an additional thirty or sixty days after an account becomes due to determine whether or not he wants to protect the open account by filing a mechanics' lien claim. Under the law as it is at present the average bill becomes due about the time when the sub-contractor's or material man's lien period expires. This would simplify the task of making a decision at the credit desk before the account is delinquent.

II

Enact the Wisconsin provision of their mechanics' liens law providing that monies paid to (*Cont. on page 48*)

Why people don't build:

Important reasons why people do not build homes, according to the Portland Cement Association are:

1. High real estate taxes.

2. General business uncertainty.

3. Large unemployment.

4. Depletion of family reserves.

5. Prospective buyers have been told repeatedly by the building industry that just around the corner they can get a factory-made house with all the modern conveniences at about half the price they would pay for a house constucted by ordinary methods.

6. Too many friends of prospective builders, who did buy during the previous building boom are now thoroughly soured on what they got.

Among the changes considered important by the Association are:

1. Public confidence in home ownership must be restored.

2. There must be developed in each community house building organizations which will combine as many as possible of the various transactions necessary to provide houses, including the acquisition and improvement of the real estate, construction, financing, insuring and selling of houses.

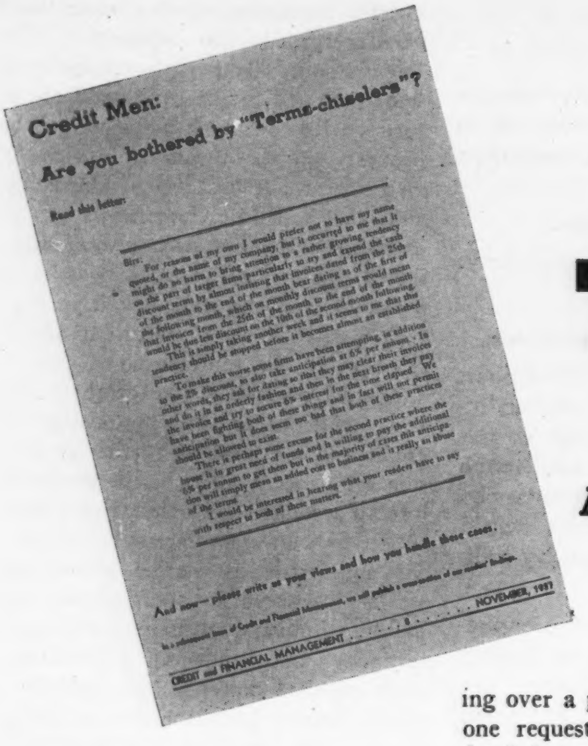
3. Manufacturers of building materials and equipment must devise the most efficient and lowest cost methods of using their products and assist in training the various crafts in their proper use, so that unnecessarily high prices are not quoted due to ignorance.

Public

The greatest lag has been in the construction of low cost housing. The total number of dwelling units built or under construction by the federal government to date is only 27,161.

Private

Private residential construction accounted for 39.2 per cent of the total construction outlay in 1928 and only 18.4 per cent in 1936.



Credit Men:

Are you bothered by "Terms-chiselers"?

Read this letter:

Sirs:

For reasons of my own I would prefer not to have my name quoted, or the name of my company, but it occurred to me that it might do no harm to bring attention to a rather growing tendency on the part of larger firms particularly to try and extend the cash discount terms by almost insisting that invoices dated from the 25th of the month to the end of the month bear dating as of the first of the following month, which on monthly discount terms would mean that invoices from the 25th of the month to the end of the month following would be due less discount on the 10th of the second month following.

This is simply taking another week and it seems to me that this tendency should be stopped before it becomes almost an established practice.

To make this worse some firms have been attempting, in addition to the 2% discount, to also take anticipation at 6% per annum. In other words, they ask for dating so that they may clear their invoices and do it in an orderly fashion and then in the next breath they pay the invoice and try to secure 6% interest for the time elapsed. We have been fighting both of these things and in fact will not permit anticipation but it does seem too bad that both of these practices should be allowed to exist.

There is perhaps some excuse for the second practice where the house is in great need of funds and is willing to pay the additional 6% per annum to get them but in the majority of cases this anticipation will simply mean an added cost to business and is really an abuse of the terms.

I would be interested in hearing what your readers have to say with respect to both of these matters.

And now—please write us your views and how you handle these cases.

In a subsequent issue of Credit and Financial Management, we will publish a cross-section of our readers' findings.

CREDIT and FINANCIAL MANAGEMENT . . . . . 8 . . . . . NOVEMBER, 1937

Thumbs down

A symposium of reader response

Reproduced on this page is the page from our January issue carrying a letter written to "Credit and Financial Management" by the officer of a large Eastern company concerning the problem of terms. From numerous letters we have received in response, the following present an interesting cross-section of the reaction of our readers to this problem and how they advocate handling it when it arises.

The big idea obviously is "thumbs down" on the "Terms-Chiselers."

From R. L. Stoughton, Production Manager of the Lee Spring Company, Inc., Brooklyn, N. Y.:

"Are we bothered by Terms-Chiselers? Yes we are, and in increasing numbers year after year. This tendency to short change, starting from humble and innocent sounding suggestions, threatens to achieve the proportions of a national institution.

"We are not only confronted with what amount to practically demand requests for extension of the time element but also by an absolute refusal to observe the terms of sale. The excuses offered are too flimsy to warrant repetition.

"This writer, however, has always been impressed by a singular circumstance surrounding these demands and refusals. With an experience extending over a period of several years, not one request, demand or outright refusal has ever been handled by the Credit Representative of the debtor firm.

"A check returned by the creditor for improper discount deduction will often find its way to the buyer of the debtor firm who will in turn hand it to the salesman of the creditor on his next call with a statement to accept it as is or else. The rest is just history in company politics.

"Why is the credit man never involved? Is his counsel without honor in his own company? Or is his function limited by company policy to a one way understanding of the subject? Why not let the right hand know what the left hand is doing? Then the problem would disappear."

From B. Lotspeich of H. J. Justin & Sons, Inc., Forth Worth, Texas:

"Terms-chiselers are the bane of our existence. We are particularly glad to see this question raised because we have been discussing it this week trying to reach some solution and a definite decision as to future action.

"We have always been strong in the belief that terms should mean exactly what they say and not 10 to 20 days additional. We feel that a merchant has no more right to take unearned discount or to insist on additional time than he has to arbitrarily reduce the price of merchandise he buys.

"We have been allowing anticipation but we are thinking of stopping it. Only a few of our customers have been anticipating but the number could grow. We think the writer of the letter is entirely right. Such a practice adds to the cost of doing business and it should be curbed.

"Our main problem is the taking of unearned discount or the stretching of terms. So many of our customers seem to feel that we are responsible for their over-looking discount dates. Our terms are 5%—30 days, following date of invoice.

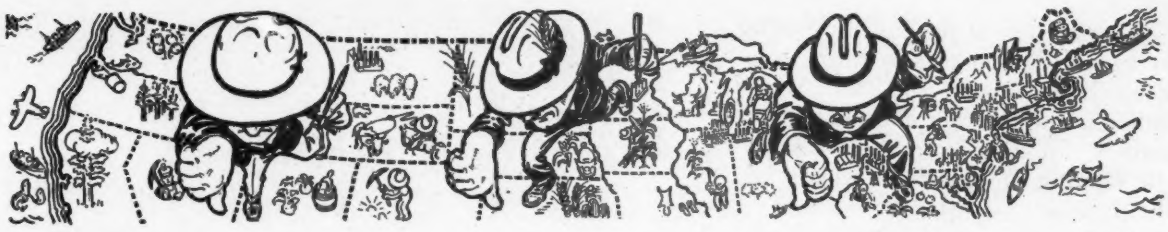
"A number of our customers think nothing of taking an extra 10 days, and even more. They excuse themselves by saying 'overlooked invoice,' 'was too busy to write check,' etc.

"When we ask for the discount, and we always do, they come back at us with something like this—'If you would send us a statement once or twice a month, as a reminder, we wouldn't overlook discount date.'

"At first we paid no attention to such comment but the comment is increasing. Now we are wondering if other manufacturers and wholesalers send out statements to remind their customers that discount dates expire on certain dates.

"We think reminder statements would add too much to the cost of doing business and that the merchant should do his own bookkeeping. We don't want to start such a practice.

"We would like to know whether or not others remind their customers of discount dates."



on "Terms-chiselers"!

From E. R. Ailes, Secretary-Treasurer of the Detroit Steel Products Company, Detroit, Michigan:

"Some twenty-five years ago we had terms of two per cent for cash in ten days from date of shipment. However, we had so much trouble with our customers that we decided to abandon all cash discounts, and have been selling on a net basis ever since. Therefore bear in mind that we have approximately twenty-five years' experience behind us. Our principal objections might be listed as follows:

"1. Even so-called good customers would not remit until they got the goods, and then they would claim the discount.

"2. A great many wanted to discount on the 10th prox. and even the 20th prox., which, in some cases, amounted to two per cent in forty or fifty days.

"3. We had cases of remittances in sixty and seventy days with the discount deducted, and when we refused to allow the discount, our customers became offended; reminded us of the business they gave us, and we were in an argument.

"4. We had any number of small balances on our ledgers, which were a nuisance and involved a lot of expense and followup letters, or if we charged them off, they were also an expense.

"5. Cash discount is for payment in ten days, and perhaps the cardinal objection is that you can not, on the average, get your money in ten days. With contractors especially you get it when they get theirs, regardless of terms.

"6. The tendency is certainly toward net terms. I know positively there are more concerns going to net terms than there are those who ever sold on a net basis going back to cash discount.

"We sell the leading automobile companies, and every account on our books is on a net cash basis. Now, the automobile manufacturers are shrewd buyers, and in many lines, such as tires, I know of instances where they requested net prices because they knew the cash discount, if allowed, was included in the price.

"We also remember our experience when we put out our product with the lumber dealers, and specialty salesmen were engaged. Those salesmen were quite insistent that two per cent in ten days was so firmly established that we would have to accept those terms. We refused and we haven't a single discount account on our books, and, aside from a few arguments, no salesman ever cited a single case where he lost the business because we would not give two per cent. In this connection, our slogan is that our salesmen should sell our merchandise and not sell terms.

"Economically, the cash discount has no sound basis, and, as you perhaps know, there never was such a thing until shortly after the Civil War and the need for money was very great. Some concerns then went to their customers and would say: 'You owe us $1,000.00 and we know it is not due, but we need the money, and if you will remit in ten days, you can take off two per cent.'

"Now, two per cent in ten days is 6% a month, or 72% a year. If you question these mathematics and figure that two per cent is allowed for paying twenty days ahead of the due date, then it would figure out as 36% a year. Naturally a concern in good credit standing or with ample capital can not afford to borrow from its customers and pay 36% a year for money when it can borrow at three or four per cent from its banks. Surely if a concern does pay 36% a year for the use of its customers' money, the cost of that money must go into the expense of that business and reflect in the price of the product.

"The writer could go on at length giving you numerous illustrations. The famous five per cent discount on tires from tire manufacturers, I think, has been entirely eliminated without any exception. The effort is to keep prices low, and if a two per cent discount is allowed, it must be added to the price as the profits are not sufficient to absorb it.

"I heard a story of one very large corporation that had a whole department figuring cash discounts on invoices, and when a study was made on the situation, it was found that the cost of operating the department was more than the cash discount earned.

"Another one of the largest concerns in the country almost insists that if you quote cash discount, you must, when billing, show the cash discount on the invoice. In other words, you must do the figuring of the cash discount for the purchaser. I asked the auditor of that large company if he figured this additional one or two per cent, or whatever the amount was, a cash discount or a price reduction. He answered without any hesitation: Simply a price reduction.

"We have now been selling on a net basis for approximately thirty years and have had uniformly satisfactory experience. This is real and actual against any theories that may be advanced to the contrary."

To Our Suppliers and Customers:

OUR POLICY
CONCERNING CASH DISCOUNTS

We believe Cash Discounts are offered as an inducement to the customer to pay his bills earlier than the net due date and at a time specified by the Seller, **not** when the Customer may feel inclined, or financially or physically able.

If payment is not made according to Seller's terms, then the discount is rightfully lost, as Seller should not be made to bear the burden of the failures of others, nor conditions beyond his control.

Our remittances will be in keeping with the above policy.

SMOOT-HOLMAN COMPANY

From C. H. Feldt, Secretary of the Smoot-Holman Company, Inglewood, California:

"Concerning the letter about "term Chiselers" on page 8 of the November issue, we have had experience along the line mentioned in that letter.

"The general system seems to be to first pay invoices, taking discount somewhat later than the discount date. This is followed by a suggestion that because of the complexity of their affairs it would be a great convenience to them if the supplier were to permit terms of 2%—30 days or whatever cash discount is currently being given.

"If this is allowed, shortly thereafter, remittances begin to come in within 10 days of date of invoice with the cash discount and anticipation discount at 6% deducted. Ordinarily, the anticipation does not amount to much for any one buyer and he is loathe to say anything about it but from the purchasers standpoint it is undoubtedly a sizeable item.

"Fundamentally, anticipation discount is wrong if one takes into consideration the origin and reason for credit.

"We have notified our customers, to whom we formerly allowed this privilege, that henceforth they are expected to abide by our regular cash discount terms as provided for all customers and while the going is a little bit rocky at times, they are gradually coming around to it.

"No one should condemn them for it as there are tricks to all trades and various forms of bait for business men; the supplier should simply learn to say 'no'.

"A few years ago we put out a printed form which we mailed to all our suppliers, stating our policy concerning cash discount. This was continued for some time with our remittances but there was no rush of people to pat us on the back for our stand.

"Some six or seven years ago there was a brazen attempt made by large department stores to get another 1% cash discount. A general letter was sent out to all their buyers in which it was explained that practically everyone had already allowed them this extra 1%. The answer in our case, again, was 'no'.

"After all it is not only fair play but it is good business to treat your customers alike. There are enough differentials to take care of buyers in the price schedules of most suppliers."

From an Ohio firm which requests that its identity be withheld:

"Referring to page 8 of the November 1937 Credit and Financial Management and with the understanding that our identity be withheld (the firm is a nationally-known leader in its field) we gladly explain that attempts to have invoices from the 25th to the end of the month considered as dated the first of the next month are rejected by us and our terms stated as applying to all the invoices of a single month without preference or discrimination.

"Under the N. R. A. this was obligatory and even now there is a natural question of whether the Robinson-Patman Act does not oppose the allowing of a longer discount period to one customer than to another.

"We do not allow any anticipation or interest deductions although we deposit the checks but immediately charge back the interest. A customer is not permitted to translate an early settlement into the forcing of a loan upon the supplier but should either eliminate the interest charge or should hold the check until the last discount day."

From R. H. Ryan, Credit Manager of Pratt & Whitney, Hartford, Conn.:

"On page 8 of the November issue, I see you are inviting comment on "Terms-Chiselers" and certainly I do not feel like the fellow who sent this complaint in. We are not afraid here to have our name or our company name on a thing of this kind. Perhaps in your case, you prefer not to print names anyway but we feel that it is an outstanding and upright thing to combat this serious condition.

"Only yesterday, we had the pleasure here of turning down three cases of nationally known and internationally known organizations, who wanted to pay our bills on the 15th of the following month and pay our net bills on the 28th of the following month. When we turned them down originally about two weeks ago, they apparently did not like it and came back with another form letter asking us to reconsider it with the hidden threat that if you don't do as we say, you will lose our business. Perhaps it's too bad but we'll have to lose the business.

"In fairness to all of the 50,000 to

60,000 names upon our books, we play fair, we will not give to one company what we will not give to another, and our discount means just exactly what it says, 2%, 10 days from the date of the bill on material appearing in the small tool catalogue, all other products 30 days, strictly, net.

"Upon demand we do allow the 10th of the first following month, because large organizations have a great volume and it is sometimes easier for them and easier for us to handle one check rather than a great many checks in the course of the month.

"When we do grant this privilege, we grant it with the understanding that all bills from the first to the 31st must be included in that remittance and if any bills are not paid within that remittance, it becomes, net, no cash discount allowed, and if you think we don't enforce that come up here and sit around, someday.

"In the case of the 6% that they are charging for prepayment, why that is just plain out. We had one of the large western mail order houses pull that on us about a year or two ago and we simply sent the check right back to them. We really didn't need the money that bad.

"I would like to suggest to the writer of the original complaint that he watch his step in this respect, if he gives it to one he will have to give to all, but he will run up without a shadow of a doubt against the sales department, and sales policy. The only thing he can do in that case is to make sure that he has a hard steel backbone—and don't give way. There's no reason today, why we should give away money at the end of 60 or 75 days when the main idea in relation to discount was to get it within a few days of the bill.

"I do not wish to make this too long but a few years ago, at one of our State conventions, here, I was placed in the position where I had to debate with Mr. Thompson of the Yale & Towne Co. on this question, because I have been and always will continue to be against cash discount in any form and we would not be granting even the 2% we do today, if it were not for the fact that many of our competitors give 2% and they sell to dealers while we do not. We sell directly to consumers, but since our customers can buy tools from dealers and get the 2%, we are obliged to give it on that one product.

"I do hope that the fight against this continues but it will be useless unless the people who are handling the situation in the various offices throughout the country, keep an absolutely rigid backbone and stick to it."

Regulating time sales

Regulations covering minimum time payments and maximum number of payments for instalment buying financed by State banks and industrial loan associations went into effect on December 15, 1937, in Virginia. By this step Virginia became the first state in the Union to develop such regulations. The announcement was made by M. E. Bristow, State Commissioner of Insurance and Banking, who said the regulation would apply to automobiles, refrigerators, radios, phonographs, stoves and kitchen equipment, washing machines, oil burners and stokers, plumbing equipment and vacuum cleaners.

From the Treasurer of a Chicago firm who requests that its identity be withheld:

"I have read with interest, the letter published in your November issue and referring to "Terms-Chiselers."

"That very same abuse existed in our industry, but during the days of the N. R. A., uniform terms were approved and adopted, by which *no datings whatsoever* were to be allowed. The industry, with few if any exceptions, has conscientiously enforced these terms, with the result that the customers appreciate, in order to earn discount, that invoices must be taken care of within the time specified.

"It is true that occasionally, some customers will endeavor to regard shipments from the 25th to the end of the month as of the first of the following month. If it is impossible to get them in line, then my company, as well as many others in the same line, simply make no deliveries to such concerns after the 24th of the month, and thereby avoid unpleasant arguments.

"The privilege of anticipation may be accorded voluntarily, and whereas those buyers whose bank balances are never strained started to anticipate at the rate of 6% per annum, my company has restricted the rate to 4%, which proves sufficiently attractive, with credit conditions as they are today.

"If the trade associations in every line of business would get its members to follow along such lines, I believe that eventually, the evil of "terms chiselling" will be eradicated."

From a Massachusetts company which requests that its identity be withheld:

"We are interested in the letter published in the November issue, regarding "term chiselers".

"We have tried to combat both of the evils referred to for some time, and in connection with the twenty-fifth of the month extension we stamp on our invoices the following notation:–

"This invoice covers a special rush order. Shipment on this date is made at your special request with the understanding that payment will be made under our regular terms—namely, no cash discount after the tenth of next month.

"In the case of those firms which insist on throwing these invoices into the following month, we try not to ship any large orders after the twenty-fifth of the month.

"Regarding the matter of anticipation on ordinary monthly bills, where we allow the convenience 3/10 E. O. M. modification of our terms, we had quite a fight for a long time to convince our larger customers that we did not make any anticipation allowance, and our practice when such deductions are made is to return the check to be held, if preferred, until the tenth of the following month, and then paid less the 3% discount, or to be corrected to the 3% discount for payment at any time before the tenth of the month.

"We notice in the case of a number of large accounts that a stamp appears on the voucher reading, 'No anticipation', or a similar notation indicating that the firms deducting the anticipation make exceptions where they are obliged to.

"A firm stand against both of these evils and constant vigilance are necessary."

(*Continued on page* 34)

Repeal the undistributed profits tax, N. A. C. M. petitions

Analysis from credit viewpoint sent to Congress by Tax Sub-Committee

by C. F. BALDWIN, Washington Representative, N.A.C.M.

As a further step in the efforts which the National Association of Credit Men has been making for more than a year to point out the detrimental effects upon credit conditions of the undistributed profits tax, a petition (see p. 25) was sent on November 27 to every member of Congress:

While numerous and comprehensive arguments against the undistributed profits tax have been presented by individuals and organizations, it was felt that a specific statement regarding the law, as viewed from *the credit standpoint,* would be particularly helpful to members of Congress at this time. The petition does not attempt to cover all of the changes in the law which are needed—in fact it specifically acknowledges the need for other changes—but it does emphasize several major faults in the law and relates them definitely to the work of credit administration.

The Association interested itself actively in the matter of the tax on undistributed profits as early as the hearings before the Senate Finance Committee on the bill which later became the Revenue Act of 1936. A member of the National Board of Directors of the Association appeared before the committee at that time, presented several arguments against the bill and urged that, if the bill should be reported favorably, at least several changes which would make it less objectionable from the standpoint of sound credit, should be made. One of those suggestions dealt specifically with the failure of the bill to provide more adequately for debt-burdened corporations. The changes in the bill proposed by the Association were not adopted and the bill became law in June, 1936.

In September, 1936, the Association addressed to members of Congress and officials of the Treasury Department a proposal to amend the Act to provide an exemption from the surtax for corporations operating under approved creditors extension agreements. The statement in which that proposal was made pointed out that, while the law exempted from the surtax corporations in bankruptcy or receivership, it failed to provide an exemption for corporations which were endeavoring to work their way out of financial difficulties and avoid bankruptcy or receivership, by means of an out-of-court arrangement with creditors. The Association's action in that instance was prompted by definite requests from Association members who had already begun to experience difficulties due to the failure of the law to provide adequately for indebted corporations.

During the ensuing year representatives of the Association were frequently in contact with government officials with regard to this matter and other aspects of the undistributed profits tax. During that period, the views of members throughout the country concerning the tax were solicited on several occasions. The Association had already taken a decisive stand with regard to one aspect of the law which was of particular interest to the credit profession but it did not wish to take a broader position regarding other parts of the law until a consensus of member opinion with regard to the entire law became available.

It was felt that any general views formally expressed by the Association concerning the law would be more effective and more helpful to members of Congress if that expression were postponed until members had a better opportunity to observe the operation of the law and its influence upon credit conditions.

Meanwhile, the President of the Association appointed a Subcommittee on Taxation of the National Legislative Committee. Following the creation of that subcommittee, the question of the undistributed profits tax was discussed at various Association meetings. In the early Autumn, the views of Association members throughout the country with regard to the tax were again solicited and shortly thereafter the Subcommittee on Taxation began to consider the type of petition which the Association should send to Congress.

In early November the New York Credit Men's Association adopted a resolution requesting the National Association to take a decisive stand concerning the law and recommended five principal changes in the law which should be made, provided the law was not repealed. By the end of that month the National Subcommittee on Taxation had completed its consideration of the New York resolution and opinions which had been received from other associations throughout the country, and prepared and distributed to Congress the petition quoted above.

It will be noted that the Association's petition stresses the need for

Federal tax laws which will not complicate the many problems of credit administration but will, instead, adequately recognize the influence which taxes exert upon commercial credit. It was felt, from observation of developments in Washington that perhaps not enough consideration had been given to the fact that tax laws which are unnecessarily complicated, which tend to create uncertainty and confusion among business men, and distribute the tax burden inequitably in some cases, disturb the sensitive forces of commercial credit which are so important to the general economic well-being of the country.

That a great many members of the Association believe that the undistributed profits tax is exerting a disturbing influence upon credit conditions—and would probably do so to an even greater extent in a time of severe business depression—was clearly evident from the communications which have been received from members with regard to this question. Those letters related specific illustrations of companies which had lost heavily during the depression, had mortgaged some of their assets and otherwise incurred heavy indebtedness, and had begun to make profits in recent years only to discover that they were required to pay what virtually amounted to a penalty tax on portions of their earnings used to pay debts.

Other reports were received which told of old and well-established firms, facing the urgent need of plant expansion and of funds to finance such expansion which had decided to postpone such expenditures not only because of the immediate effects of the corporate surtax but of the fear of the effects of the tax at some later time when business conditions might be less favorable. Other reports indicated the difficulties which were being experienced by companies, particularly smaller concerns, in connection with attempts to retain surplus and avoid the tax by the several means which are made available in the law. Still others reported the difficulties which were being experienced, not only by Association members but by their customers, in connection with the requirement of the law that credits are obtainable only on dividends distributed during the taxable year.

Those illustrations were based on facts, not theories. They indicated a very sincere belief that, irrespective of theoretical arguments opposing or supporting the principle of a surtax on undistributed corporate earnings, the present law is definitely detrimental to business. Such was the mandate from members which found expression in the above petition.

The situation in Washington with regard to the undistributed profits tax has been so thoroughly covered in the daily press that it would be superfluous to comment on it at this time. There appears to be not the slightest doubt that Congress intends at least to modify the law in many respects. There is a considerable sentiment in Congress in favor of outright repeal of the principle of the tax on undistributed profits and numerous bills to repeal that part of the law have been introduced in Congress in recent weeks. Many others proposing drastic changes in the undistributed profits tax, as well as the capital gains and loss tax, have also been introduced. It is quite apparent that Congress generally recognizes that the tax has acted as a business deterrent and should be changed.

It is understood, however, that the Administration opposes outright repeal of the tax on undistributed profits. The special subcommittee of the House Ways and Means Committee, which for several weeks has been studying this matter, has developed a plan to modify the law, which by implication at least, suggests that the subcommittee does not at this time favor repeal.

The question which naturally rises in the minds of business men in regard to this situation concerns the time when the expected change in the law will be made by Congress. Several attempts have been made to bring about repeal of the law during the special session and Congressman Celler of New York has (*Continued on page* 37)

Petition to The Congress

concerning the Revenue Act of 1936 by the National Association of Credit Men

The undersigned committee of the National Association of Credit Men—a non-profit organization, comprising approximately twenty thousand manufacturing and wholesaling concerns located throughout the country—respectfully submits to the Congress the following information and suggestions concerning the so-called undistributed profits tax provisions of the Revenue Act of 1936. As the National Association of Credit Men is representative of so large a cross-section of business, both large and small, with a substantial part of its membership made up of the smaller business units which are so vital to the general welfare of communities and of the entire nation, we believe that the facts and opinions expressed herein will be of interest to members of Congress in their endeavor to foster our general economic and social well-being.

The maintenance of sound credit conditions is an essential factor in promoting the nation's business activity and preserving its general prosperity. Such sound credit conditions are interfered with not only when companies are unable to meet their obligations promptly, but also when conditions exist which hamper the extension of credit in accordance with commercial requirements. The wisdom of the decisions made in the extension of credit must depend to a considerable degree upon the availability of accurate, dependable facts. Among the most important of such facts is the question of the probable tax liability of a company to which credit is to be granted. Entirely apart from the amount of a tax, it is unquestionably true that the stability of credit conditions depends to an important extent upon the manner and method by which taxes are imposed as well as the purpose of their imposition.

There are many reasons why the question of tax liability under the undistributed profits tax provisions of the Revenue Act is definitely related to the question of stable credit conditions. It is obvious, of course, that credit conditions must inevitably be influenced by the general effect of a basic tax law upon the entire business structure of the country. There are, however, certain more specific influences of this law upon the broad field of credit which are particularly noteworthy. To cite a few:

(a) Any decision by management regarding the retention or distribution

of earnings may vitally affect the credit standing of a company. The emphasis placed by the undistributed profits tax upon the question of such distribution in relation to tax liability greatly magnifies this problem and increases the uncertainty in credit extension.

(b) Adequate financial resources, both for the purpose of tiding a corporation over a period of business depression and also to provide funds for reasonable development, are basic considerations in determining the credit standing of a company. Obviously, a corporation whose working capital position appears inadequate to maintain it during a period of reduced business activity, becomes less eligible for credit than a corporation with adequate finances. Any tendency which might result in a general distribution of corporate earnings in excess of prudent business requirements enhances the general credit risk of the country almost in direct ratio to such excess.

(c) Failure of the law to provide an exemption from the corporate surtax in the case of indebted corporations which are making an honest attempt to pay their debts through out-of-court arrangements with their creditors is not only inconsistent—because the law provides such an exemption for corporations in bankruptcy and receivership—but represents an unsound principle of credit. In effect, the law grants immunity from the surtax to corporations which have passed beyond the point of probable recovery and penalizes corporations which, although temporarily embarrassed, are endeavoring to work their way out of difficulties and continue in business.

(d) In several respects, the method of determining the amount of tax to be paid under the undistributed profits tax creates elements of uncertainty which complicate the necessary appraisal of a corporation's credit standing.

Your petitioners sincerely believe that the interests of government, business and the general welfare would be materially served by repeal of the surtax on undistributed corporate profits. This conviction is based upon a careful and unprejudiced observation of the effects of the law in the field of business generally and particularly in that of credit. If, however, the surtax on profits is to be maintained it is strongly urged that the law be modified in at least the following important respects. We believe that the law should also be changed in other respects but we have confined our observations here to certain aspects of the law which appear to be particularly detrimental to stable credit conditions.

The committee desires to recommend the following changes which the Association believes would result in a material improvement in the law:

1. Provide exemption from the corporate surtax of a reasonable amount or a fixed percentage of earnings which may be withheld by the corporation from distribution and employed for purposes of capital expansion, addition to surplus or other legitimate corporate requirements.

2. Permit corporations to consider, in computing the tax to be paid, dividends paid within a specified period after the end of the taxable year. It is usually impossible to ascertain actual earnings until a reasonable time has elapsed after the close of the fiscal year. Failure of the law to recognize this situation has created an unnecessarily disturbing element in business.

3. Provide exemption from the corporate surtax of the amount of earnings which are set aside during the taxable year for the payment of accumulated indebtedness of the corporation, and for the retirement of funded debts. Specific exemption should be extended to corporations operating under a creditors' extension agreement or under a creditors' committee, giving the same relief there as is now granted corporations which are in bankruptcy or receivership. Unless such relief is given it is likely that many such extension cases will terminate in liquidation, and many feasible opportunities in the future for settlement of indebtedness by this method will be disregarded, thus defeating constructive efforts of debtors and creditors to preserve the companies involved as going concerns.

4. The tax payer should be permitted to apply losses of a reasonable number of prior years against profits of the succeeding years in determining the income subject to the corporate surtax in such later years. It is inequitable to exact heavy taxes upon the full profits of successful years without relief in respect to unprofitable years.

5. Provide for dividend-paid credit for any dividend distribution made within sixty days of the final determination of taxable net income where the net income reported in the return is increased upon subsequent examination by the Treasury Department.

6. Since the actual earnings of a business and the taxable net income as computed under the present law may differ, the corporate surtax should be levied only on the taxable earnings as shown by the adjusted net income.

This committee respectfully submits the foregoing facts and recommendations which are derived from the experience of the large number of representative business concerns in the membership of the National Association of Credit Men. It is believed that the changes in the law which are suggested are urgently needed in the interest not only of business stability but of the general public welfare.

The purpose underlying the submission of this petition is to be of assistance to Congress in its efforts to enable business to better serve that general welfare. The committee fully recognizes the obligation of business to bear its fair share of the cost of government. It believes, however, that all of the necessary tax objectives of the government can be attained without the unnecessary confusion and difficulties which have been produced by certain features of the Revenue Act of 1936.

The committee respectfully offers the facilities of the National Association of Credit Men to obtain any additional facts or views, either by communication or by the presence of witnesses, which Congress and its committees feel would be helpful in the study of this important problem.

Signed:

John L. Redmond, Crompton-Richmond Co., Inc., New York City, Chairman, National Legislative Committee, National Association of Credit Men.

Sub-committee on Taxation—National Association of Credit Men

V. Franck Kimbel, Ballard and Ballard Co., Louisville, Kentucky, Chairman

Frank Dudley, General Grocery Company, Portland, Oregon

A. A. Martin, Momsen-Dunnegan-Ryan Co., El Paso, Texas

J. M. McComb, The Crucible Steel Company, New York City

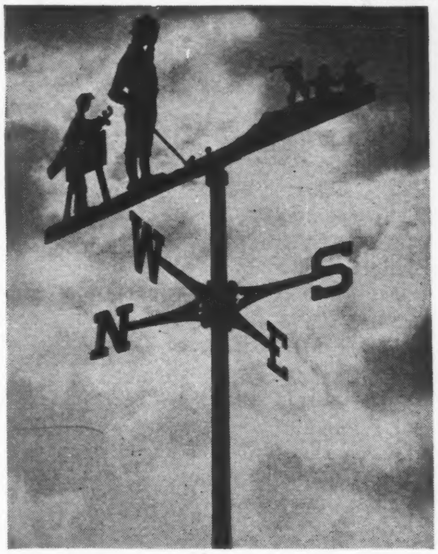
T. W. Peck, Kalamazoo Vegetable Parchment Company, Kalamazoo, Michigan

D. A. Robison, Caterpillar Tractor Company, Peoria, Illinois

Cousins in crime

by H. H. BAILEY, Mid-West Representative, Fraud Prevention Dept., N. A. C. M.

Gendreau



No point of the compass is overlooked when a "buying-for-a-bust" scheme is operated.

"Lost and found—guilty!" was the title of a story by Charles J. Scully, Director of the Fraud Prevention Department in Credit and Financial Management (Mar. 1934) which described the activities of one Irving Weisbrod alias Ralph Medow. This narrative might well be called a sequel to that story because Ralph Medow and Abe Arons, our present subject, were "cousins" in their business operations if not by blood relationship.

Both individuals came to Chicago about the same time. Medow opened his place of business under the name of Pioneer Supply Company. Abe Arons—alias David Brown, alias Jay Cohen, alias Leo Mills—opened the Illinois Merchandise Company.

As usual, the first necessary steps in operating a business of this kind are to install a desk and typewriter and engage a typist whose sole duties are typing up orders for merchandise.

In this particular case they collected several catalogs of houses doing a national business and proceeded to circularize a great number of these business institutions, asking for prices. Upon the receipt of prices, orders for merchandise would immediately follow referring their prospective creditors to their agency rating and in some cases they would enclose a financial statement.

This usual method of operation was followed by Arons; that is, he issued financial statements reflecting a substantial net worth, secured ratings with credit agencies and flooded the country with orders.

Within 90 days he had secured a large amount of merchandise which was received one day and gone from his place of business the next. The only cause for delay on the quick turnover was explained by some of the girls employed by Arons. It was necessary for these girls to remove the labels of standard merchandise with safety razor blades. Of course, the idea that it was harder to identify merchandise without a label did not originate with Arons—but he thought he knew all the answers.

Now, our friends Arons and Medow were not small time nor were they going to leave a loop hole whereby the merchandise, when it went on the market, could be traced to them.

An office was rented in Chicago in the name of the Main Sales Company and a large part of the merchandise handled by the Illinois Merchandise Company and the Pioneer Supply Company was sold through the Main Sales Company.

Of course, this merchandise was sold below cost and because of the fact that it was sold through the Main Sales Company it was very difficult to prove that the merchandise was sold originally to the Illinois Merchandise Company or to the Pioneer Supply Company. Arons and Medow thought that they were too smart to get caught in their own racket.

Things began to happen when a petition in bankruptcy was filed against Abe Arons, doing business as the Illinois Merchandise Company, on October 13, 1933, and a complaint was filed with the Fraud Prevention Department of the National Association of Credit Men. In fact two complaints were filed, one against Abe Arons and the other against Ralph Medow.

The representative to whom these cases were assigned soon found that there was a close connection between these businesses. Of course, there was no Arons or Medow to talk to, for the simple reason that they had both taken what is sometimes called "a runout powder."

One of the big problems that the investigators had to determine was who these men really were, where they came from and where they were located.

Needless to say there was no correspondence, books or records left by these smart boys that would assist in any way in analyzing their operations or where they were to be found.

To go into detail of the work required to determine the method of operation, where the merchandise was disposed of and what became of the proceeds would make the story altogether too long.

It required several weeks of investigation to get any sort of an idea of their operations. This was done by locating former employees, tracing merchandise, checks and monies. After getting this angle of the case well established we still had to find our men.

Information was obtained that Ralph Medow was in New York using the name of Ben Hart. This information was forwarded to New York and in a short time we were advised that Ralph Medow was under arrest there.

He was returned to Chicago and within a few days he entered a plea of guilty to using the mails in a scheme to defraud. He was sentenced to serve 18 months in the Federal Penitentiary and placed on probation for three years.

Still there was no trace of Abe Arons or what he was doing. After more intensive investigative work it was learned that Arons had a safety deposit box located in a certain section of New York City under one of three or four names. Again the New York men went on the job and the box was found (*Cont. on page* 36)

Credit and Financial Management's Index of 1937 articles and features

(*Continued on page* 37)

This month's collectors:

Submitted for the approval of our readers

by E. L. HAUGHEY, Credit Manager, Hewitt Soap Co. Dayton, Ohio

Gentlemen:

In going over some duplicate copies of letters I noticed that our Credit Manager has set ———— as the time he is going to place your account for collection if you have not mailed your remittance in full.

This certainly was a surprise to me as our policy is unusually lenient in matters of this kind. If this delay in payment is due to any fault of the Sales Department, will you please let me know at once so that I can get in touch with Mr. ————, our Credit Manager, and delay this action.

Of course, if it is due to financial troubles beyond your control I suggest that you write Mr. ———— at once as I have prevailed upon him to delay such action until you have had time to reply to this letter.

Very truly yours,
THE HEWITT SOAP CO., INC.
Vice-President.

Dear Customer:

I wonder if you will help me out of a little difficulty, from taking a step that is absolutely unnecessary in every respect.

When you made your original contract with us your credit was found perfect and there is no reason why it is not so today—time does not change a man's desire to pay his bills, even if it does alter his financial condition.

You know as well as I do, if we could meet personally it would be an easy matter to iron this out—you could talk and so could I. As it is, I have been doing all the talking.

Won't you please say something about this—what has happened—are we at fault?

To be sure that you do get your say I am attaching a blank sheet of paper and a stamped envelope—personally addressed to me—yes, I have even signed your name.

Sincerely yours,
THE HEWITT SOAP CO., INC.
Credit Manager.

"In every list of accounts there are some who do not answer by excuse or by payment the conventional list of collection form letters. Six, seven, eight or eighteen letters cajoling, pleading, appealing to honesty, integrity, credit reports, or even a threat to place with attorneys, credit agencies or National Association of Credit Men do not upset the debtor's tranquillity. He just goes on," Mr. Haughey writes.

"When time does come to take definite action, the collection correspondent usually uses a letter in which a definite date for the turning over of the account to the attorney is given. Then if the remittance or something definite is not received from the debtor the account is forwarded for collection.

"In between the date of the threatening letter and the date of turning there is an open time element during which the debtor's mind is open for suggestions and if he is not a ten-minute egg or an actual dead-beat another letter might lead to results.

"The attached letters are forms which we use and up to the present time have had unusual success. The one letter more or less throws the responsibility on the customer, the other ridicules his neglect to answer and at the same time the definite legal date is kept alive.

"Returns on the letter either through remittance or correspondence run about 47 per cent, even in face of the debtors having had a series of seven letters pounded out to them.

"Both letters are individually typed and in the last letter the one enclosure is a blank sheet of 8½ x 11 paper with the customer's name and address typed at the bottom. The envelope is a plain return type with "Credit Department" typed in red on the face.

"I am sending both letters to you and you can be sure that if you have any members who might use either letter you can feel free to mail them a copy for their use. The prize letters we read in 'Credit' are used just as freely."

What's ahead for business?

(*Cont. from page* 11) and it does not mean government competition with the private capital of its citizens. It rather means that a temperate control by government is probably essential.

There are good reasons for avoiding the government in competition with private capital of its citizens in which direction there seems to be an increasing trend. Among these reasons are:

1. The notorious inefficiency of the government conduct of business.
2. The dangers incident to political influences.
3. Once the government is actually launched in business, there is no place to stop.

Any reference to the contributing causes of our present bewilderment seems to demand attention to the strife between industry and labor. Just now the demands of labor are excessive in many instances and in many particulars, and the methods of compelling their enforcement are subject to frequent and just criticism—and while not uttered as a defense, it is interesting to recall that history does not record that labor as a group ever gained anything for which it didn't bitterly contend. We are now witnessing the application of the human quality of selfishness on the part of labor which, for a period until recently, characterized industry's behavior.

No doubt it will be carried to such extremes that industry will be unable to survive and at that time it is my belief the present relentless excessive demands of the group in the ascendancy must of necessity be tempered for the preservation of the whole.

It is trite to observe that excessive costs of production and distribution will reduce consumption and react unfavorably upon the entire economic structure.

I desire to record an affirmative vote on the question of maintaining the high standards of American living, but I do not fail to recognize that America is not free from the operation of fundamental economic laws, the violation of which will ultimately result in America as it would result elsewhere.

The statement recently made many times to me is true—that periodically since the birth of this nation its very existence and its principles have been threatened, but that it has always survived, and that there is no need to worry now, it will again survive the threat of destruction.

May I emphasize to you that survival did not automatically occur, but was the direct result of determined, intelligent opposition to the adoption of principles and practices which would overthrow our American ideals; opposition exhibited by such men as constitute this group.

You and I, as individuals, may and indeed must, contribute to the belated restoration of business to the lofty position which it deserves, if the material well being of all is again to be an enduring reality.

May I express the hope that led by the guiding hand of friendship and a recognition of mutual interest, we may in peace jointly contribute to attaining the solution of, not only our minor local problems, but our manifold, complex national problems as well.

Court decisions

SALES — DELIVERY OF GOODS ON CONSIGNMENT — TITLE TO PROCEEDS FROM SALE OF GOODS — WHETHER GOODS, SHIPPED BY A MANUFACTURER TO A DEALER FOR SALE ARE HELD ON CONSIGNMENT OR NOT, DEPENDS LARGELY ON THE INTENT AND CONDUCT OF THE PARTIES. — In the Matter of WARNER-QUINLAN COMPANY, Debtor. United States Circuit Court of Appeals for the Second District, November 9, 1936.

The Lee Tire and Rubber Co. of New York, filed a petition to reclaim certain moneys from the Warner-Quinlan Co., the debtor in proceedings under Section 77B of the Bankruptcy Act. The debtor had a subsidiary corporation, the Mileage Gas Corporation, which on September 17, 1928, entered into an agreement with the Lee Tire and Rubber Co. for the consignment of tires to be sold at its retail gas service stations. This agreement was terminated July 6, 1931, when a similar agreement was entered into by the Lee Tire and Rubber Co. with the Municipal Gas Stations, Inc., also a subsidiary of the debtor. This latter agreement was terminated in September, 1933, and the debtor, the Warner-Quinlan Co., after notice to the Lee Tire and Rubber Co., undertook to operate directly all of the stations of its subsidiary. No further written agreement was made between the debtor and the Lee Tire and Rubber Co. In the agreements with the subsidiary corporations, it was stipulated as to tires delivered that "title to all merchandise herein consigned by the Lee Company to the consignee shall continue in the Lee Company until said merchandise shall have been sold by consignee, and thereupon the title to the proceeds of the sales thereof shall likewise be vested in the Lee Company until such time as it shall have received full payment for the said merchandise."

During the debtor's operation, the Lee Company delivered the tires always accompanied by a consignment memorandum which was retained by the debtor, and the merchandise shipped was charged in it to the Lee Company's consigned stock. When sales were made from such consigned stock, a report was submitted by the debtor to the Lee Company during the month following such sales, and the latter thereupon rendered an invoice to the debtor.

The Lee Company contended that the conduct and acts of the parties amounted to an assignment and a continuation by the debtor of the agreement between the Lee Company and the Municipal Gas Stations.

The Court of Appeals reversed an order denying the Lee Company's motion for reclamation of the proceeds of its merchandise sold by the debtor. The court said that if the Lee Company was selling to the debtor on an open account or on credit, there would be no necessity for a consignment memorandum and that the debtor, receiving tires on an open account, would hardly have continued for several years without protest to accept goods on consignment memorandum. The receipt and acceptance of goods on a consignment memorandum indicates a consignment, not an open account or sale on credit. The granting of a discount is not inconsistent with such bailment. Nor is the provision allotting to the debtor all surplus above the invoice price. The debtor recognized that it was receiving the tires on consignment, for upon delivery of the tires, no entry thereof was made on its books, and it did not therefore list the tires as its assets. It received fixed commissions for sales made and there was no obligation to pay for any tires until sales were made. It is apparent that the debtor treated the transaction as did its subsidiary, the Municipal Gas Stations, under its agreement, as a consignment. The debtor is consequently bound by the agreement.

It was also argued that at most there was a consignment of the merchandise and that upon a sale by the debtor, the relation between the parties in respect to the proceeds became that of debtor and creditor. This, it is claimed, is evident from the business and a provision in the agreement requiring the proceeds to be kept in a separate account. But the court held that such a provision was not necessary. The agreement reserved title to the proceeds of the sales in the Lee Company. This indicates a trust relationship which, if confirmed by the conduct of the parties, would permit a reclamation of the proceeds.

The court then held that further evidence should be taken to establish the conduct of the parties with respect to the proceeds of the sales. If the proceeds were to be held in trust, and if they were deposited in the debtor's general account, there would have been a breach of trust, and if there was no contractual duty to remit the proceeds of the sale but merely to pay the Lee Company monthly out of the debtor's general funds, an extension of credit would be established which would contradict the provision of the agreement that title to the proceeds of the sale was to vest in the Lee Company. Furthermore, if the consignment intended that the proceeds were to be remitted monthly, and that this was not carried out as to the sales in question, but that the moneys were deposited in the general account of the debtor, and if its bank account always exceeded the amount claimed during the period of its possession of the proceeds of the sale, then it may be held that the funds have been sufficiently traced and may be reclaimed.

The case was remanded for further testimony and a determination to be made as indicated in the opinion.

Building credits and mortgages

(*Cont. from page* 16) corners thereby cheapening the building which would result in a faster depreciation.

8. What type of credit information should material men have to extend building credits intelligently?

1. Plans and specifications of the proposed building.
2. Financial statement of the borrower.
3. Plan of financing the building as outlined by the borrower.
4. He should have a thorough knowledge of the contents of the building loan contract with particular regard to the provision for the payment of the materials supplied.
5. They should have a trade report on the borrower to determine whether he pays his bills promptly or whether he procrastinates.

9. Have liens been largely eliminated and if so, why?

Yes. Because of closer cooperation between the supply men, builders and the lender. Today the trend of the lender is to have the borrower have a greater equity in the property.

10. What are the danger signals in present situation, if any?

The danger signals have been eliminated so far as possible. The principal ones being building beyond the individual's means of carrying and amortizing the mortgage. The far-sighted builder of today is modernizing the house to the point his finances will permit. However, this can be overdone, yet it cannot be overlooked.

11. Do banks look with favor on risks where second mortgages are involved? If not, why?

No. Because the first mortgage is granted to an individual who is financially able to amortize the mortgage in addition to paying the taxes and other overhead charges. Where there is a second mortgage, the carry charge is increased to a point where the owner will be unable to maintain the charges necessary for the two mortgages. The equity in the property is too small proportionately and where a property is repossessed by a second mortgagee there is a stronger tendency towards just maintaining the property until a sale can be effected, which is not comparable to a property properly maintained by a home owner who has an equity equivalent to the mortgage.

"Terms—Chiselers"

(*Continued from page 23*)

From H. W. Hill, Treasurer of Janney-Semple-Hill & Co., Minneapolis, Minnesota:

"Term Chiseler in his complaint of November 8th, 1937, in Credit and Financial Management has given thought to but one side of his subject.

"There are many firms doing a national business and others selling over an extensive territory who if they waited until the first of the month to mail out statements would find it impossible for their trade to receive, examine and pay these statements in ten days and would make the abuse of discounting after the 10th worse than it now is.

"As to anticipation at 6% per annum on datings if Term Chiseler's firm will discontinue extended terms he will free himself from the very abuses of which he complains."

And finally a very complete summary by H. H. Kase, Credit and Collection Manager of the Taylor Instrument Companies, Rochester, New York:

"I would say the letter reproduced on page 8 is quite mild compared to the way I feel about this proposition. During the early part of 1937 this matter was impressed upon me so forcefully that I requested an outside organization to make a special survey, and incorporated the results in a short article designed primarily for use by our own company. I had intended to have this printed in the form of a pamphlet, but so far that has not been done. I am enclosing a copy of this for your information.

"It is my opinion that since this survey was made for us, there has been a further increase in the practice, especially among larger concerns, as mentioned by your correspondent. These days it is quite common to 'view with alarm' and I do not want to be classed as an alarmist.

"But I do feel that here is a tendency that is really serious and ought to be taken up by every commercial, industrial, and trade association in a cooperative movement to combat this drift. 2%, 10 days used to mean 10 days from the date of the invoice. It has now been stretched so that it is practically universal to consider 2%, 10 days as meaning 2% on the tenth of the following month.

"I know certain trade associations with which I have corresponded are very much against this particular practice of redating invoices from the 25th to the end of the month as of the first of the following month, even though some of their own members are most active in promoting it. I think that if something is not done to produce a counteracting movement, this practice is going to increase until it covers the whole country and practically all lines of trade and commerce in the same way that 2%, 10 days has now become 2/10 E. O. M.

"A local concern, the largest of its kind in the world, made a survey of 24 representative companies on this particular subject about the middle of the year, with the result that 10 out of the 24 reported that they closed their billings either on the 25th or some other date previous to the end of the month and redated the subsequent invoices as of the first of the following month. On the other hand, 14 companies out of the 24 did not make redatings of this kind.

"I feel safe in saying that, if that survey were made today, I think the lineup would be half and half instead of 10 to 14. If we do not do something about this now, it is going to be too late."

The material referred to in Mr. Kase's letter follows:

"Our products are sold to many lines of trade in the manufacturing, wholesale and retail divisions. Therefore we are naturally concerned about the practice, in certain lines, of redating invoices issued between the 25th and the end of the month, as of the first of the following month.

"That this practice is growing, is indicated by the fact that a number of concerns have a clause printed on their order forms providing that the invoice covering the merchandise ordered, must be redated in this manner.

"To determine the extent of this custom, we asked a well known research organization to undertake a survey. This covered twenty-five national associations of manufacturers, six national associations of wholesalers and five associations of credit men. We present the results in condensed form for your information.

"It has always been contrary to our policy to allow such redatings. We believe the time has come to take a decided stand against the practice.

"Among the associations of manufacturers and wholesalers it appears that there are only a few cases where the practice is at all general. These are:

"1. cotton yarn
"2. automotive equipment
"3. small leather goods
"4. silk

"Somewhat infrequently it is found among the furniture and the cutlery manufacturers.

"In the wholesale dry goods trade it is apparently confined to the larger cities and especially to the Metropolitan area of New York. It appears to be limited, in this line, *almost exclusively to local business between the wholesaler and the retailer.*

"In the wholesale drug trade it appears to be quite common to invoice all purchases *bought by retailers* on or after the 27th of the month as of the first of the following month.

"The reasons given for this custom are interesting. One authority lays the blame on the introduction of E. O. M. terms under which it was found that all selling and buying ceased near the end of the month because the purchaser would hold back his orders during the last few days so as to gain the extra time he would receive by placing them after the first of the month.

"Another authority says that the purpose of this practice is primarily to enable business concerns to get their statements to their customers early and that it is also used for sales purposes by advertising that all purchases made during the last few days of the month will not be charged until the first of the following month.

"Whatever other reasons there may be, we agree with an official of a large national association of manufacturers, whom we quote as follows:

" 'It is our opinion that the fault lies largely with the manufacturers and others who sell to this class of trade in allowing themselves to be dictated to, but until trade organizations can control, through their code of ethics, the action of their individual members, this practice no doubt will spread, which in our opinion is neither good sound economics—nor justified'."

★ ★ ★

Take stock of your problems. Aren't there some situations, either temporary or recurring, which could be eased by a controlled cash position? Let us explain how we can help you.

★ ★ ★

DOLLARS at Work . . . Every manufacturer, every wholesaler, would like to see that sign in front of his business establishment for the full twelve months of the year.

When dollars are working business hums. When your dollars go on periodic sit-downs of 30-60-90 days' duration—to carry your customers' accounts—you're on a spot. Pay rolls may be difficult to meet. Perhaps you lose discounts. Perhaps your obligations slip past due. Perhaps you miss selling desirable new accounts.

KEEP CAPITAL LIQUID—AND WORKING

Commercial Credit Company's open account financing plan, operated on a "non-notification" basis, is designed to help you keep your dollars at work.

Here's how. You sell us all or a part of your receivables. You get immediately the cash you need. As a general rule, the cost is less than the normal discount you would allow for cash, and your dollars stay as liquid capital in *your* business, rather than in your customer's.

CREDIT LOSSES STRICTLY LIMITED

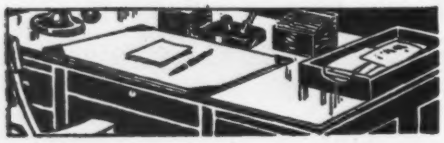
Our exclusive LIMITED LOSS clause guarantees you against all credit loss beyond a small agreed percentage. It is a new form of protection in open account financing. It makes this modern, flexible type of sound, industrial financing attractive to the most conservative business executives.

COMMERCIAL CREDIT COMPANY

BALTIMORE

NEW YORK **CHICAGO** **PORTLAND, ORE.** **SAN FRANCISCO**

On offices



Office expansion

How to plan for office expansion was discussed by Allen Everett before a recent Forum of the National Office Management Association. Reporting his talk, "Management Review" notes that in order to provide the utmost flexibility in office routine and procedure, it may be found advisable to make all clerical units as mobile as possible by reducing private rooms and partitions to a minimum, avoiding plaster and tile partitions where movable wood or steel partitions will suffice, and utilizing supply cabinets, locker cabinets, etc., for dividing clerical spaces. For shelving, lockers, and similar equipment the use of standard office units rather than specially built-in equipment will contribute substantially to mobility.

It will be found that the adoption of a "Records Retention System" and a "Records Destruction Program" will help considerably in holding inactive office space to a minimum and in reducing investment in filing facilities. Records which have outlived their usefulness should be destroyed. The establishment of a "Forum Control System" makes it possible to develop simpler, often smaller, forms, which require less space for filing and can be filled out on smaller machines. All these factors should have a profound effect on the economics of the office.

Keeping appointments

Designed as a perpetual desk reminder the Visioner, "the automatic appointment keeper," is a year-round tickler file that has been introduced by the Cincinnati Mailing Service, 1030 Woodlawn Ave., Cincinnati, Ohio.

According to "The Office," patents are pending on its features which include an alphabetical file into which memo sheets or business cards may be filed for reference. This tickler file, automatically brings to the attention of the user the memo or business card on a desired date and simultaneously keeps the current date in sight.

The memo pad space accommodates 200 sheets, which can be torn off, fit both into a card case or the alphabetical or tickler file behind it. It is made of bakelite and finished in Walnut, Mahogany and Ebony.

Multiplying punch

In a recent issue of "The Office" there appears a multiplying punch introduced by Remington Rand, Inc. The Powers Printing Multiplying Punch is a rapid calculating machine which prints a record of all computations and punches a Powers card or not, as desired.

Among its features are direct subtraction, non-add control, progressive and net totals, half-carry, column lockouts, multiple translator flexibility, summary cards, and group multiplication. Calculations involving factors as high as six digits by six digits can be performed at a constant speed of 1200 an hour.

Office talk

Conversafone, a new inter-office communication system, manufactured by Conversafone Company, 17 West 60th Street, New York City, was announced recently in "The Office." It operates with a single plug-in in an electric socket outlet and the rest operates by cable. 300 feet of cable are given with each installation as well as a year's service.

Cousins in crime

(*Cont. from page* 27) under the name of J. Cohen.

After obtaining a court order the box was opened and $10,000 in cash and other assets were found and turned over to the court.

Investigation disclosed that at least a large part of this money was withdrawn from another bank by Arons under the name of Leo Mills. Now we were looking for Abe Arons, Leo Mills and J. Cohen who might be one man or three men. Months went by but there was no let-up by either the Fraud Prevention Department or the government investigators to whom the case had been turned over.

Late in 1936, Abe Arons was located in Florida where he was known as Dave Brown and was placed under arrest by government officers.

It would seem that Arons had about played out his string—but you don't know Abe! He secured the services of one of the best lawyers in Chicago and then started all the delays known to the legal profession.

Without going into detail regarding these delays it is only necessary to say that Abe Arons—Leo Mills—J. Cohen—Dave Brown went on trial before U. S. District Judge Sullivan on October 27, 1937.

The government was ably represented by Assistant U. S. Attorney Thomas Hart who had done such splendid work in handling this type of violations. After the government had presented its case, Abe Arons entered a plea of guilty to concealing assets from his Trustee in Bankruptcy and on November 1, 1937, was sentenced to serve 20 months in the Federal Penitentiary.

This is the sequel to "Lost and found—guilty."

Arons was truly lost from October 1933 until November, 1937, but now he can be found doing time in the Federal Penitentiary for defrauding his creditors.

A great deal of credit is due Assistant U. S. Attorney Hart and the agents of the Federal Bureau of Investigation for their fine work in this case.

Corporate surplus tax petition

(*Cont. from p. 25*) introduced a resolution which would defer the application of Section 14 of The Revenue Act (surtax on undistributed profits) until July 1, 1938.

The general sentiment in Congress, however, appears to be that no action can be taken until the regular session which will commence in January, and that, since there has been considerable criticism of the haste in which the original law was considered and passed, any basic changes in the law should be attempted with more deliberation. The concensus of opinion in Washington at the present time, therefore, seems to be that no important changes in the law will be finally approved until the late Winter or early Spring, and possibly even somewhat later.

In addition to presenting the petition to Congress, the Association has offered to submit further and more specific information regarding the tax which might be helpful to the House and Senate committees which will consider the matter. It has also offered to provide witnesses who will testify regarding the tax at hearings which will probably be held by those committees.

White collar personnel

New York, with the nation's largest portion of white collar personnel, serves as a barometer of any trends in the field, "The Office" notes. Several significant changes are now being felt in the metropolis which may be of interest to the nation's office managers.

According to a semi-annual survey by the National Employment Exchange, business executives are evidencing a preference for men over women for office posts. This is in direct contradiction to a five-year preference for women. Where last year four men were hired, the number is now five, and last year's request for seven women has dropped to six.

Employment officials optimistically regard this as a healthy sign. They point to the fact that men are regarded as more profitable long-time employment investments, and that a preference for men over women is at last significant of a desire to look to the future and to build staffs and not just to hire for sole maintenance needs.

A baked apple a day doesn't

The adage that "an apple a day keeps the doctor away" is not true if the apple happens to be baked or if it is served as apple pie. In the process of baking, apples lose three-fourths of their vitamin C content, according to research workers at the New York agricultural experiment station.

Unit volume

During the present decade the average annual increase in the number of families will approximate 475,000 to 500,000. But the average annual number of family dwelling units upon which construction was started was 677,000 in the decade 1920-1929 and only 165,000 in the seven years 1930-1936.

Credit and Financial Management Index for 1937 (Cont. from page 29)

Insurance digest

Re-rating the insurance risk

The anti-discrimination provision of the proposed new insurance law of New York State contains a feature which should appeal to the common sense of business men, "The New York Journal of Commerce" points out. The laws of many states now provide, in effect, that no insurance rates shall be set "which discriminates unfairly between risks of essentially the same hazards." The proposed New York law adds: "and the same necessary underwriting expense."

Throughout business generally, it is customary, when the purchaser saves the seller expense, to let him share the saving through a reduction in price. Thus, transportation in carlots costs less per pound than in single packages. Most goods are cheaper in large quantities than in small.

Insurance laws, however, seem to have been modeled after the postal laws, under which the same price per stamp is charged whether one or a thousand be purchased. The fact is overlooked that a stamp is virtually the Government's receipt for prepayment of the charge for carrying a letter, and the carrying of each letter is a transaction in itself, whose cost is not affected by the number of stamps a sender may purchase at one time.

Insurance practices are often more reasonable than strictly construed laws would warrant. Thus, insurance of many persons under a group policy is effected at a lower cost per member than would be charged if each were insured in a separate transaction. Collection and payment of the premiums by the employer cause a considerable saving to the insurance company, and the group gets the benefit.

On the other hand, one insurance commissioner after another has ruled against insuring automobiles of employes as part of their employer's fleet. The position is taken that other owners of similar cars, who do not secure this privilege, would be discriminated against.

If the insurance company is saved the expense of numerous transactions in insuring a number of cars, why should not those who made possible this saving receive some consideration? If one person, representing a group, purchased for them a carload of some commodity he would get the carlot freight rate, although railroads are governed by anti-discrimination laws as are insurance companies.

The proposed new law in New York regularizes what has been common practice and opens the way to its extension. If it should be enacted in its present form, it might prove the start of a more rational plan of rating insurance risks, the "Journal of Commerce" concludes.

Credit and fire waste

In an address before a group of junior business executives known as the Comers Club of Chicago, E. B. Moran of the central division of the National Association of Credit Men stated "it can be definitely proved that the credit losses and waste of the country exceeds three to one the registered fire waste of the nation."

Mr. Moran's talk, entitled "Quarter of a Billion Dollar Racket," referred specifically to fraudulent commercial failures which, while a staggering figure in themselves, were but a small percentage of the total loss by commercial business through careless, slip-shod methods of credit procedure

or failure to properly analyze the facts available.

"A survey has shown that less than one-third of the credit men actually interest themselves in the analysis of customer's insurance coverage in various forms of insurance protection carried," continued Mr. Moran, "and if credit managers would use more caution in making an analysis and inquire as to the insurance carried, fire, casualty, liability, use and occupancy, tornado, windstorm and riot, as well as life insurance, it would offer interesting and valuable data relating to the justification for a line of substantial credit.

"A study of innumerable fraudulent cases definitely proves that commercial crooks, aiming toward the liquidation of assets to cash and contemplated disappearance with cash, will bother very little about such things as insurance. In these instances there will be little, if any, of these various types of insurance carried. On the other hand those contemplating fraud by the liquidation route through fire will sometimes insure heavily.

"Alert credit executives recognize these facts, study the insurance coverage of the various customers and frequently offer valuable counsel to the legitimate dealer as well as detecting the undesirable risk."

Fraudulent insurance

Postal authorities have pledged full cooperation to the Pennsylvania Insurance Department in its campaign to wipe out fraudulent insurance, according to an announcement by Insurance Commissioner Owen B. Hunt. The problem arises because many of the fake concerns use the mails in order to solicit prospects, according to Mr. Hunt, and send their literature from various places outside of the jurisdiction of the Pennsylvania department.

Strike coverages

News about strikes takes up a good portion of our daily papers, a recent item in "Fire Insurance" points out. Sometimes riot and civil commotion are the accompaniment of labor difficulties, and when they are, it's nice to find your agent has provided riot and civil commotion insurance.

Riot and civil commotion insurance is a contract that will indemnify you for direct loss or damage caused by: riot; riot attending a strike; insurrection; civil commotion; explosion directly caused by any of the foregoing; and explosion occurring from other causes, whether originating on the premises of the assured or elsewhere. Generally, it may be said that losses due to riot and civil commotion and explosion that are not covered by a fire policy or not considered eligible to a casualty contract, are covered by the riot and civil commotion policy.

The cost of a riot and civil commotion policy—which includes explosion—is moderate and depends on the hazards of the risk insured and its construction.

Telephone behavior

Some sensible "Do's" and "Don'ts" for office telephone users as suggested by observing telephone company officials, are presented in "The Office."

"Leah—Who's this?—Yeah, this is Smith.—Smith, I say—Huh?—I don't getcha—Oh! Okay!"—click!

The man who suddenly and prematurely slams his telephone upon the completion of his conversation is simulated by telephone company officials to the fellow who slams doors. They also see a strange similarity between the person who pushes a door-bell and runs around the house and the man who has someone wait at the other end for a moment after the call has been put through.

They say the old-fashioned "hello" is obsolete. "This is the ——— department, Mr. ———, speaking," is the more useful. A secretary should say, "Mr. Baker's office." "May I tell him who called?" is better than "Who is calling?" followed by "Mr. Baker is not in."

It makes a bad impression to say "Wait a minute. I want to get some paper and make a note of that." A pad and pencil should be kept close to every phone. But they also bemoan the fellow who tries to talk with that pencil in his mouth, or his cigar or pipe. The rule which their operators observe is, "Speak clearly, distinctly and in a natural tone of voice. Don't whisper, don't shout, don't mumble. Speak directly into the transmitter."

It is a discourtesy to transfer the call to someone else if you can handle the call yourself. They say it is also discourteous to keep a person waiting, that he should be called back after the information is found. Some of the other rules they have formulated are:

It is better to allow the caller to hang up first. Don't cover the transmitter while you talk to someone else. Be courteous and calm at all times. Don't interrupt, argue or become impatient. Try to place the same cordial expression in your voice that your listener would get if you were talking face to face. Impatient "jiggling" of the hook to signal the operator does not flash the small lamp on the switchboard. The right and effective way is to move the hook up and down slowly. If you are going to be away from your desk, be sure that your telephone will be answered in your absence and that the attendant at the switchboard knows where you can be reached.

The business thermometer:

Wholesalers' sales and collections fell in November under last year's figures.

Manufacturers' sales were $5\frac{1}{2}\%$ lower and collections showed a slight decline.

Wholesalers:

The dollar volume of wholesale trade declined about 3 per cent during November as compared with November, 1936, and the rate of collections on accounts receivable was slightly lower than last year, according to reports from wholesalers cooperating in the monthly joint study of the National Association of Credit Men and the Bureau of Foreign and Domestic Commerce.

Without adjustment for seasonal influences, November, 1937, sales registered a decrease of 11 per cent from October of this year. The collection rate was also slightly below the previous month.

Only six of the twenty-two trade groups shown in this report recorded sales increases over last November, the tobacco and drug trades showing the greatest gains with sales increases of 9.5 and 8 per cent respectively. The sales of Paper and Lumber and Building Material dealers declined moderately while other decreases ranged down to the 26 per cent loss shown for clothing and furnishings.

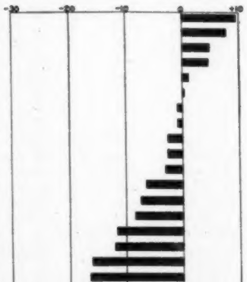
Only three regions recorded sales increases over last November, the Mountain states leading with a gain of almost 8 per cent. Sales in the Pacific area were up about two per cent while sales in the West South Central region were about one per cent ahead of last November. Decreases in the six remaining regions ranged from the 15 per cent decline in the East South Central states to practically no change in the East North Central region. As compared with October, 1937, the declines ranged from a decrease of about 8 per cent in the East North Central states to a loss of slightly more than 20 per cent in the Middle Atlantic region.

The rate of collections on accounts receivable for all trades was somewhat lower than both last November and October, 1937. The collection ratios were 67.1 for November, 1937, 67.6 for November, 1936, and 68.2 for October, 1937.

Seven of the 22 trade groups had a higher average collection percentage for November, 1937, than for November, 1936. The greatest relative increase in collections from a year ago was registered by the Paint and Varnish trade.

PERCENTAGE OF CHANGE IN SALES OF 1447 WHOLESALERS IN 22 KINDS OF BUSINESS NOVEMBER 1937 COMPARED WITH NOVEMBER 1936

KIND OF BUSINESS	
Tobacco & its pro.	+ 9.5
Drugs & drug sun.	+ 7.8
Gro. & fds., ex. frm.	+ 4.9
Electrical goods...	+ 4.6
Farm pr. (con. gds.)	+ 1.9
Meats & meat pro.	+ 0.2
Lum. & bldg. mat.	— 0.9
Paper & its prods.	— 0.9
Automotive sup..	— 2.7
Leather & shoe find.	— 2.7
Industrial sup.....	— 3.1
General hardware.	— 6.6
Heavy hardware..	— 7.4
Plbg. & heat. sup.	— 8.4
Metals..........	—11.6
Paints & varnishes	—12.0
Dry goods.......	—16.1
Shoes & oth. ftwear	—16.3
Furn. & hshld. fur.	—16.3
Jewelry & opt. gds.	—16.5
Mach., eq. & sup.	—17.2
Clth. & fur., ex. shs.	—25.8



Source: Marketing Research Division, Bureau of Foreign and Domestic Commerce.

Manufacturers:

Manufacturers sales declined $5\frac{1}{2}$ per cent during November, 1937, as compared with November, 1936, while the rate of collections on accounts receivable decreased, according to reports from manufacturers cooperating in the monthly joint study of the National Association of Credit Men and the Bureau of Foreign and Domestic Commerce, Department of Commerce.

Without adjustment for seasonal influences, November, 1937, sales fell off about 16 per cent from October, 1937, the rate of collections being somewhat lower than last month.

Only three of the industry groups reported sales greater than last November. The Petroleum and Machinery groups both recorded gains of about 11 per cent, while sales of Food and Kindred Products increased fractionally over November, 1936. The Paper and Chemical industries showed moderate declines, but declines in the other industry groups ranged down to the 27 per cent decrease registered by Non-ferrous Metals and their products.

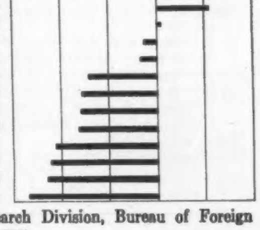
Percentages of collections on accounts receivable submitted by 497 manufacturers for November, 1937, averaged somewhat less than November a year ago and were slightly below October of this year. During November this year, the manufacturers reporting collected 75.7 per cent of their accounts receivable outstanding on the first of that month as compared with 78.0 during November of last year and 77.0 during October, 1937.

Only three of the 13 industry groups shown reported a higher average collection percentage for November, 1937, than for November, 1936. The greatest relative increase in collections between these periods was registered by the Printing and Publishing Industry.

Detailed figures are presented in the following tables and charts:

PERCENTAGE OF CHANGE IN SALES OF 560 MANUFACTURERS IN 13 INDUSTRIES NOVEMBER 1937 COMPARED WITH NOVEMBER 1936

INDUSTRY	
Petroleum prods..	+11.3
Mch., not in. tr. eq.	+ 0.9
Food & kin. prods.	+ 0.9
Paper & allied prod.	— 2.7
Chem. & allied pro.	— 3.3
Stone, clay & glass	—14.1
Leather & its prod.	—15.5
Ptg., pub. & all. pro.	—15.8
Forrest products..	—16.2
Textiles & prods..	—21.1
Motor Veh. parts.	—22.2
Iron & steel & prod.	—22.9
Non-fer. mtl. & pro.	—26.7



Source: Marketing Research Division, Bureau of Foreign and Domestic Commerce.

WHOLESALERS' sales and collections on accounts receivable November 1937

Kind of business	Number of firms reporting sales	Sales reported: Nov. 1937 percentage change from: Nov. 1936	Sales reported: Nov. 1937 percentage change from: Oct. 1937	Sales reported: Thousands of dollars: Nov. 1937	Sales reported: Thousands of dollars: Nov. 1936	Sales reported: Thousands of dollars: Oct. 1937	Number of firms reporting collections	Percent* of collections during month to accounts receivable at beginning of month: Median percentage: Nov. 1937	Median percentage: Nov. 1936	Median percentage: Oct. 1937
Automotive supplies	35	− 2.7	− 9.5	1,285	1,320	1,420	33	63.0	62.0	64.1
Clothing and furnishings, except shoes	20	−25.8	−42.1	996	1.342	1,720	10	46.4	48.3	40.9
Shoes and other footwear	39	−16.3	−11.5	11,404	13,618	12,884	18	40.5	46.5	49.6
Drugs and drug sundries	133	+ 7.8	− 1.4	22,512	20,885	22,826	111	72.6	71.6	75.5
Dry goods	87	−16.1	−19.1	13,980	16,664	17,286	46	43.9	45.4	45.0
Electrical goods	251	+ 4.6	− 5.3	14,808	14,153	15,635	187	65.9	68.3	63.2
Farm products (consumer goods)	19	+ 1.0	− 9.4	2,043	2,023	2,256	19	112.0	115.0	124.0
Furniture and house furnishings	30	−16.3	−23.2	2,349	2,805	3,057	22	50.2	51.1	52.8
Groceries and foods, except farm products	241	+ 4.9	− 5.2	29,587	28,214	31,226	176	100.0	94.5	99.8
Meats and meat products	16	+ 0.2	−25.7	7,342	7,330	9,888	15	116.5	113.3	118.4
Total hardware group**	391	− 6.4	−16.4	25,174	26,883	30,104	316	57.7	58.7	59.5
General hardware	182	− 6.6	−14.2	16,781	17,963	19,556	128	50.5	53.0	51.5
Heavy hardware	27	− 7.4	−11.0	1,171	1,264	1,316	26	64.3	59.9	65.4
Industrial supplies	111	− 3.1	−20.7	3,818	3,940	4,815	95	71.3	72.3	69.6
Plumbing and heating supplies	71	− 8.4	−22.9	3,404	3,716	4,417	67	57.1	60.2	64.3
Jewelry and optical goods	19	−16.5	−26.4	1,017	1,218	1,381	—	—	—	—
Leather and shoe findings	11	− 2.7	− 9.5	218	224	241	11	41.0	45.0	46.0
Lumber and building materials	16	− 0.9	−11.8	1,306	1,318	1,481	16	61.7	65.2	69.0
Machinery, equipment and supplies, except electrical	22	−17.2	−23.7	1,812	2,189	2,376	19	65.0	62.0	67.0
Metals	8	−11.6	−23.5	328	371	429	8	72.6	74.0	80.4
Paints and varnishes	9	−12.0	−22.3	285	324	367	9	67.0	57.0	63.0
Paper and its products	57	− 0.9	− 8.1	3,772	3,808	4,105	39	68.5	69.0	70.7
Tobacco and its products	10	+ 9.5	+ 3.7	946	864	912	9	100.0	101.0	104.3
Miscellaneous	33	+ 1.2	− 2.6	7,459	7,368	7,662	38	74.8	73.2	72.2
Total	1,447	− 2.8	−11.1	148,623	152,921	167,256	1,102	67.1	67.6	68.2

*These figures should not be related to sales figures for current month. They represent only ratio of collections during that month to accounts receivable at beginning of month. The wide differences existing between the percentages for various kinds of business are due principally to variations in terms of sales.

**Related items in the hardware field are being shown separately and by totals. Information is now being collected and shown for distributors of industrial supplies. This heading also includes distributors of mill, mine and steam supplies.

MANUFACTURERS sales and collections on accounts receivable November 1937

Industry	Number of firms reporting sales	Sales reported: Nov. 1937 percentage change from: Nov. 1936	Sales reported: Nov. 1937 percentage change from: Oct. 1937	Sales reported: Thousands of dollars: Nov. 1937	Sales reported: Thousands of dollars: Nov. 1936	Sales reported: Thousands of dollars: Oct. 1937	Number of firms reporting collections	Percent* of collections during month to accounts receivable at beginning of month: Median percentages: Nov. 1937	Median percentages: Nov. 1936	Median percentages: Oct. 1937
Food and kindred products, total	119	+ 0.9	− 8.1	26,215	25,984	28,520	82	108.2	109.5	117.7
Confectionery	39	+ 2.4	+ 8.8	6,125	5,984	5,628	8	116.0	106.0	128.5
Flour, cereals, and other grain mill products	14	−10.1	−20.2	4,905	5,458	6,145	14	112.2	110.0	121.0
Meat packing	14	− 0.8	−17.2	3,909	3,940	4,719	14	156.3	173.2	163.4
Other food products	52	+ 6.4	− 6.3	11,276	10,602	12,028	46	93.9	96.5	100.9
Textiles and their products, total	73	−21.1	−22.5	11,398	14.445	14,702	71	64.7	67.0	65.0
Clothing, men's, except hats	15	−27.1	−23.5	1,730	2,373	2,260	14	56.5	60.9	54.3
Clothing, women's, except millinery	15	+ 1.7	−24.2	1,812	1,781	2,392	15	68.8	68.4	68.4
Knit goods	11	− 1.4	− 2.6	2,509	2,544	2,575	12	65.9	69.2	60.5
Other textile products	32	−31.0	−28.5	5,347	7,747	7,475	30	66.2	68.8	67.2
Forest products, total	32	−16.2	−22.9	2,056	2,453	2,667	30	59.3	61.8	62.0
Furniture	23	−14.2	−23.4	1,566	1,825	2,045	21	58.5	61.0	63.0
Lumber, timber, and other miscellaneous forest products	9	−22.0	−21.2	490	628	622	9	62.0	66.8	56.0
Paper and allied products, total	60	− 2.7	− 7.4	8,139	8,368	8,787	53	79.0	82.0	84.4
Paper, writing, book, etc	10	− 9.8	−18.3	2,429	2,692	2,972	9	84.4	90.0	90.0
Paper boxes and other paper products	29	− 4.1	− 9.1	4,097	4,270	4,507	27	87.0	86.8	88.9
Wall paper	21	+14.7	+23.3	1,613	1,406	1,308	17	33.4	38.4	38.0
Printing, publishing and allied industries	11	−15.8	−52.8	951	1,129	2,013	11	66.5	64.0	66.0
Chemicals and allied products, total	42	− 3.3	−22.6	6,782	7,016	8,763	43	64.3	63.9	67.2
Paints and varnishes	19	−11.9	−22.6	1,565	1,777	2,021	19	52.0	50.0	54.0
Pharmaceuticals and proprietary medicines	14	+10.7	−29.3	1,605	1,450	2,270	14	76.7	77.9	73.0
Other chemical products	9	− 4.7	−19.2	3,612	3,789	4,472	10	82.8	87.9	90.5
Petroleum products	10	+11.3	− 5.0	34,105	30,642	35,887	10	76.2	77.7	76.8
Leather and its products, total	27	−15.5	−19.8	5,384	6,371	6,716	26	63.5	71.0	72.2
Boots and shoes	18	− 9.2	−21.9	4,033	4,441	5,163	17	48.3	53.0	51.1
Stone, clay and glass products	18	−14.1	−18.2	6,329	7,370	7,735	23	78.3	76.9	77.0
Iron and steel and their products, total	51	−22.9	−27.5	24,650	31,963	34,009	50	82.5	86.4	89.8
Hardware	8	−25.6	−26.4	1,477	1,985	2,006	9	80.6	81.7	70.0
Stoves, ranges and steam heating apparatus	10	− 8.9	−23.8	1,700	1,867	2,230	10	57.5	68.5	72.8
Other iron and steel products	33	−23.6	−27.9	21,473	28,111	29,773	31	88.0	92.0	96.0
Non-ferrous metals and their products	15	−26.7	−19.9	5,018	6,842	6,261	16	76.8	84.9	84.9
Machinery, not including transportation equipment, total	50	+10.9	−15.9	27,663	24,939	32,885	49	73.0	73.0	72.5
Electrical machinery, apparatus and supplies	19	+10.3	−19.0	19,748	17,901	24,388	21	76.9	77.1	77.0
Other machinery: founfry products	31	+12.5	− 6.8	7,915	7,038	8,497	28	71.5	60.4	71.2
Motor vehicle parts	11	−22.2	−19.8	2,635	3,389	3,285	10	90.3	93.4	93.0
Miscellaneous industries	41	− 3.2	−22.9	7,225	7,462	9,368	39	65.0	73.8	75.2
Total	560	− 5.5	−16.4	168,550	178,373	201,598	497	75.7	78.0	77.0

*These figures should not be related to sales figures for current month. They represent only ratio of collections during that month to accounts receivable at beginning of month.

WHOLESALERS' sales and collections on accounts receivable by geographic regions, November, 1937

Kind of business and region	Number of firms reporting sales	Sales reported: Nov. 1937 percentage change from:		Sales reported: Thousands of dollars			Number of firms reporting collections	Percent* of collections during month to accounts receivable at beginning of month: Median percentage		
		Nov. 1936	Oct. 1937	Nov. 1937	Nov. 1936	Oct. 1937		Nov. 1937	Nov. 1936	Oct. 1937
New England	86	— 7.8	—18.0	4,703	5,101	5,736	71	64.6	67.2	62.0
Drug and drug sundries	25	+ 6.5	+ 7.5	1,105	1,038	1,028	15	70.3	67.2	59.8
General hardware	6	—18.0	—21.3	292	356	371	6	61.2	52.5	64.2
Heavy hardware	6	—22.8	—15.9	122	158	145	6	57.3	60.2	63.7
Industrial supplies**	15	—14.8	—11.4	334	392	377	13	83.1	83.3	75.3
Plumbing and heating supplies	9	— 2.4	—20.3	243	249	305	8	47.4	56.9	59.1
Middle Atlantic	323	— 1.8	—11.1	29,834	30,366	33,544	220	59.5	66.4	65.3
Shoes and other footwear	12	—12.1	—12.3	1,253	1,425	1,429	—	—	—	—
Drugs and drug sundries	20	+ 3.7	— 6.5	4,598	4,433	4,915	19	73.3	68.7	75.0
Dry goods	16	—26.7	—16.6	1,327	1,810	1,590	—	—	—	—
Electrical goods	51	— 3.2	— 1.8	3,080	3,182	3,137	40	65.5	71.5	65.3
Groceries and foods, except farm products	48	+ 5.9	— 4.5	6,053	5,715	6,337	35	98.9	94.3	89.8
General hardware	32	—10.0	—16.8	2,334	2,592	2,806	26	48.3	47.8	48.9
Heavy hardware	10	— 5.9	—14.6	270	287	316	5	53.4	54.7	64.1
Industrial supplies**	29	— 2.3	—14.9	856	876	1,006	25	73.8	76.7	80.4
Plumbing and heating supplies	20	—10.9	—26.5	1,019	1,143	1,387	20	55.0	49.3	52.0
Jewelry and optical goods	14	—25.1	—37.4	571	762	912	—	—	—	—
Lumber and building materials	6	—23.0	—17.8	272	353	331	6	54.4	55.6	57.5
Paper and its products	18	+ 0.2	— 4.0	1,272	1,260	1,325	—	—	—	—
East North Central	263	— 0.1	— 8.4	27,707	27,720	30,255	210	74.1	73.0	75.0
Automotive supplies	8	+ 1.2	—21.7	412	407	526	7	61.0	61.0	61.0
Drug and drug sundries	23	+ 5.7	+ 0.4	3,709	3,508	3,694	17	83.7	88.0	89.7
Dry goods	9	—11.3	—14.7	1,199	1,351	1,405	9	46.8	46.2	48.3
Electrical goods	56	+ 8.6	— 8.0	4,141	3,814	4,500	34	74.2	68.1	65.3
Groceries and foods, except farm products	57	+ 5.9	— 2.3	8,092	7,639	8,278	45	106.0	90.0	106.0
General hardware	21	0.0	—14.1	4,149	4,150	4,828	18	60.4	59.6	55.7
Industrial supplies**	25	+ 6.1	—19.1	993	936	1,227	22	75.2	75.5	71.7
Plumbing and heating supplies	11	— 7.0	—25.9	436	469	588	10	69.5	66.8	71.6
Paper and its products	14	+ 0.7	— 8.1	1,385	1,375	1,507	13	70.0	75.6	70.7
West North Central	185	— 9.0	—10.4	29,558	32,466	32,974	142	63.0	65.2	67.4
Automotive supplies	9	+12.5	+ 6.4	234	208	220	8	71.4	70.0	69.2
Clothing and furnishings, except shoes	7	— 4.9	—34.0	175	184	265	—	—	—	—
Shoes and other footwear	7	—14.5	+ 1.7	8,293	9,699	8,154	—	—	—	—
Drugs and drug sundries	13	+ 3.0	— 8.7	2,207	2,142	2,418	13	76.6	75.7	82.0
Dry goods	8	—21.6	—10.5	4,575	5,832	5,109	6	43.8	42.9	44.6
Electrical goods	27	+14.6	— 6.7	1,459	1,273	1,563	21	50.2	56.8	55.4
Furniture and house furnishings	8	—10.6	—21.1	1,243	1,391	1,575	6	38.3	45.0	43.0
Groceries and foods, except farm products	33	+ 0.5	— 7.4	3,602	3,585	3,888	22	100.5	113.0	102.7
General hardware	11	—10.7	—15.5	1,790	2,004	2,119	9	43.7	48.8	47.6
Heavy hardware	5	+ 7.4	—33.3	58	54	87	5	62.9	55.1	51.3
Industrial supplies**	14	+ 2.4	—18.7	431	421	530	13	68.6	68.3	78.7
Plumbing and heating supplies	9	—16.8	—27.8	218	262	302	8	67.9	60.0	61.7
South Atlantic	187	— 2.8	— 8.7	13,292	13,675	14,561	138	63.6	66.4	66.1
Shoes and other footwear	5	—33.3	—53.1	496	744	1,058	—	—	—	—
Drugs and drug sundries	25	+10.3	+10.3	2,456	2,227	2,227	21	71.4	69.1	74.0
Dry goods	13	—14.3	— 8.2	1,512	1,765	1,647	7	44.1	44.4	44.1
Electrical goods	33	0.0	— 4.9	1,390	1,390	1,462	26	70.0	74.5	68.8
Groceries and foods, except farm products	30	+ 2.8	— 4.1	2,017	1,963	2,102	20	103.4	96.1	94.5
General hardware	27	—11.3	—11.0	1,685	1,899	1,894	24	49.7	53.0	50.6
Industrial supplies**	12	+ 1.8	—12.4	283	278	323	8	58.3	58.8	59.4
Plumbing and heating supplies	9	— 6.4	—20.8	775	828	978	8	55.3	59.3	59.0
Paper and its products	6	—13.8	0.0	300	348	300	5	68.4	65.4	73.0
East South Central	79	—15.4	—16.0	5,889	6,962	7,010	51	56.4	59.3	60.2
Drugs and drug sundries	13	+ 1.4	— 6.5	1,282	1,264	1,371	9	53.5	46.5	52.7
Dry goods	11	—30.3	—26.7	1,103	1,582	1,505	—	—	—	—
Groceries and foods, except farm products	13	— 1.8	— 9.4	648	660	715	7	98.5	94.7	81.6
General hardware	17	—24.2	—15.7	1,484	1,957	1,761	11	46.4	48.3	51.1
West South Central	111	+ 0.9	—14.3	11,036	10,940	12,871	78	69.1	74.0	71.0
Drugs and drug sundries	16	+20.3	0.0	2,390	1,987	2,390	15	81.4	83.0	78.0
Dry goods	14	— 4.0	—25.5	1,523	1,587	2,043	—	—	—	—
Electrical goods	17	+16.8	— 5.5	743	636	786	13	62.1	74.0	57.3
Groceries and foods, except farm products	24	+ 4.9	— 7.2	3,200	3,051	3,449	20	91.6	94.7	100.3
General hardware	21	+ 4.7	—10.4	1,556	1,486	1,736	17	52.7	55.2	55.5
Mountain	49	+ 7.8	—18.7	6,331	5,872	7,787	41	68.8	73.4	74.4
Drugs and drug sundries	5	+ 7.0	— 5.5	794	742	840	—	—	—	—
Electrical goods	12	—14.5	—24.4	430	503	569	10	63.1	63.8	73.3
Groceries and foods, except farm products	6	+ 6.4	— 9.1	1,205	1,132	1,325	—	—	—	—
General hardware	5	— 1.3	—19.3	538	545	667	—	—	—	—
Pacific	164	+ 2.3	—10.0	20,273	19,819	22,518	151	65.7	64.8	68.8
Automotive supplies	11	— 6.6	— 3.3	295	316	305	11	63.0	61.8	63.5
Drugs and drug sundries	10	+10.5	+ 3.1	4,219	3,817	4,094	9	65.6	71.0	71.4
Dry goods	12	—15.4	—22.9	1,041	1,230	1,351	11	47.4	49.4	53.0
Electrical goods	26	+ 4.9	— 5.4	2,303	2,196	2,435	25	68.3	64.8	71.6
Farm products (consumer goods)	5	+ 3.0	—24.8	695	675	924	5	99.0	100.3	127.6
Furniture and house furnishings	9	—26.7	—34.3	508	693	773	8	59.0	57.3	60.3
Groceries and foods, except farm products	23	+ 7.0	— 6.1	4,521	4,226	4,814	19	111.0	109.0	110.7
Meats and meat products	5	+18.9	—19.1	548	461	677	—	—	—	—
General hardware	16	— 0.7	—12.5	2,953	2,974	3,374	14	52.3	55.0	51.5
Industrial supplies**	8	—15.3	—22.6	199	235	257	8	58.1	62.3	60.5
Plumbing and heating supplies	11	— 8.6	—17.8	553	605	673	11	61.2	71.1	70.8
Paper and its products	7	+ 5.7	—31.3	279	264	406	6	70.3	63.5	72.5

*These figures should not be related to sales figures for current month. They represent only ratio of collections during that month to accounts receivable at beginning of month. The wide differences existing between the percentages for various kinds of business are due principally to variations in terms of sales.

**Related items in the hardware field are being shown separately and by totals. Information is now being collected and shown for distributors of industrial supplies. This heading also includes distributors of mill, mine, and steam supplies.

NEWS ABOUT CREDIT MATTERS

A Section Devoted to Association Affairs

Forms Close on 20th of Month Before Issue

JANUARY, 1938

Save on Losses With Interchange

Pioneer of Bankruptcy Act Is Dead

New York.—Harold Remington, an authority on bankruptcy law and one of the writers of the original Federal Bankruptcy Act, died at his home in Long Island on December 15th.

Mr. Remington had been a close friend of the National Association throughout his active career in New York and had cooperated with the Association in several of its National Legislative campaigns.

Mr. Remington served as a referee in the New York area for some time and was one of the first to advocate the appointment of reresentatives of state organizations such as the National Association of Credit Men to act as receivers and trustees in bankruptcy cases. He patterned his opinion on such matters after the English situation where members of Boards of Trade usually handle such cases. His efforts in behalf of the credit representatives was not always accepted on a popular basis by other New York referees.

Tells How Bad Debt Losses Fit In Taxes

Joseph Hummel, a Grand Rapids Certified Accountant, gives the following advice relative to charging off bad debts and showing such charge offs on income tax return:

"Income tax regulations provide that bad debts must have been actually charged off the books in order to be allowed as income tax deduction for the year in which the account becomes uncollectible.

"If the taxpayer has not been able to get any response through conscientious collection methods, he is justified in charging off the account and claiming deduction therefor."

This will be of interest to treasurers in making up tax returns.

Albert E. Peltz, First President Of South Bend Association, Is Dead

South Bend.—Albert E. Peltz, first president of the South Bend Association of Credit Men and president of the Peltz-Kaufer Company, Inc., of this city, died late in November at his home on Kessler Boulevard. Mr. Peltz was first affiliated with Jacobson, Peterson and Company, and later with the firm of Jacobson, Peterson and Kaufer. Later the firm's name was changed to Peltz and Kaufer.

Mr. Peltz was one of the group of business executives interested in credit which organized the South Bend Association and he became the first president and an active supporter of the Association ever since. Mr. Peltz was known and admired by a wide circle of business friends throughout the St. Joseph valley.

J.M. Brugler of Rochester Is Honored

Rochester.—J. Mercer Brugler, a past president of the Rochester Association of Credit Men and a present director; also, a member of the Foreign Credit Executive Committee of the National Association of Credit Men, has just been elected to the Board of Trustees of the Rochester Savings Bank. Mr. Brugler fills the place of the late William A. E. Drescher. Mr. Brugler, who is also a director of the Rochester Credit Men's Service Corporation, has been active in a number of Rochester civic activities. He is a graduate of the University of Rochester and is now serving as President of the Associated Alumni of the University of Rochester.

It is worthy of note that Mr. Brugler takes the place on the Rochester Savings Bank Board formerly occupied by one of the pioneers and organizers of the Rochester Association, William A. E. Drescher who was Credit Manager of the Bausch & Lomb Optical Company of this city for a number of years and was an organizer of the Rochester Association back in 1896.

Explains New Tax Law to Credit Men at G. R.

Grand Rapids.—E. T. Conlon, representing the Michigan State Chamber of Commerce, was the speaker at the luncheon meeting of the Grand Rapids Association of Credit Men on December 16th. Mr. Conlon spoke about the new State Tax now called "Use Tax". The talk was one of the most interesting presented on this year's series of luncheon programs as a great many of the members of the Association are the officers of their corporations who look after tax matters.

Trial Balance Is Made Basis of Fraud Case

A case of unusual interest to credit men resulted in a 30 Day Workhouse term for an individual who submitted a trial balance in lieu of a financial statement and obtained credit on the trial balance. The New York Credit Men's Association as assignee informed the court that the trial balance was false in the amount of $2,681.00. The Mill Factors Corporation had extended credit on the basis of this trial balance in the amount of $1,000. Judges Walling, Gresser and Hackenburg of the Special Sessions Court held that the trial balance was in fact a financial statement and that the same State Law which applied to false financial statements also applied to the issuing of a trial balance when it was presented as a basis for credit. The Mill Factors Corporation was the only creditor to receive the trial balance and was the complaining witness in this case.

Oregonian Gets 4 Year Fraud Term

Portland.—On December 6th Harold M. Mallory, a former merchant at Klamath Falls, was sentenced to a four year term in the McNeil Island federal prison after conviction on a charge of concealing property of a bankrupt estate. Mallory operated the Old Fort mercantile stores in Klamath Falls and was alleged to have withheld property valued at $500 from his declaration of assets in bankruptcy proceedings. Creditors claimed a loss of $13,000 in the estate.

The sentence is one of the most severe meted in recent years in federal district court, according to Manley Strayer, U. S. deputy attorney who represented the government in court. It was hinted during the hearing of this case that an effort was being made to prosecute every case of fraud which developed in bankruptcy proceedings.

U. of C. Holds Educational Conference

Chicago. — Credit men and business men in general will be interested in the announcement by the University of Chicago of the Fifth Annual Conference on business education. The subject of the conference is "Business as a Social Institution." The dates are June 30th and July 1st, 1938.

Among the subjects to be discussed under the heading "Business as a Social Institution", will be the relative responsibilities of government and vocational training and the responsibilities of education for effective participation in business. Morning and afternoon sessions will be held on both days. A credit program will be available by addressing the School of Business, University of Chicago, after January 1st.

Donations to Conventions Deductible

Grand Rapids.—Rodney Schopps, manager of the Grand Rapids Convention Bureau, has made the following announcement to firms supporting his organization:

"The Commissioner of Internal Revenue has ruled with reference to Section 23 of the Revenue Act of 1936 as applicable to contributions. The Commissioner's ruling is as follows: "A corporation may contribute to help bring a convention to a city and the entire amount of contribution is properly deductible as a business expense where the corporation expects the convention to increase its business in an amount commensurate with its contribution."

This ruling is of special interest to cities which contemplate making a bid for N.A.C.M. national conventions.

It is suggested that a close check should be made with corporation auditors of these deductions as expense items when making up income tax reports covering this year. It would not of course be difficult to show that a credit convention, either district or national, helps to increase profits through better methods and according to this ruling may be deducted.

ZEBRAFFAIRS

San Francisco.—Once again the boys from San Francisco have made good on their city's slogan "San Francisco Knows How." On November 13th, the San Francisco Herd journeyed to Sacramento, the capital city of California and initiated fifteen lowly mules into the mysteries of Zebradom.

Although their trek over the burning sands was long and arduous, the Sacramento lads came through with flying colors and another Herd of the Royal Order of Zebras has come into being. The enthusiasm displayed by this livewire bunch makes sure that the new herd will be outstanding in its activities on the Pacific Coast.

San Francisco's bi-monthly luncheon meetings continued to hold the interest of all members. On November 1st, Zebra Cliff Levo, credit executive from Hills Bros. Coffee Co., spoke on the Coffee Industry and on November 15th, Zebra Lou Miller of MacMillan Publishing Co., brought his Pacific Coast Mgr., Mr. J. H. Beers to address the herd on matters pertaining to the book industry.

Milwaukee.—The Zebra Bowling Team got underway December 4th with four teams on hand to compete in the regular games and also a special contest in which the low man wins. This was the first of a series of Zebra Bowling Parties scheduled for the Winter months among the members of the Milwaukee Herd.

Radio Jobbers Form New Group In Seattle A.C.M.

Seattle.—The Northwest Radio Jobbers Association has affiliated with the Seattle Association of Credit Men under the group name of The Radio Jobbers Credit Control Group. A number of the leading radio jobbing houses in the Pacific Northwest have already signed up in this group activity and several other jobbing houses are expected to enroll shortly after the first of the year.

The new Radio Jobbers Group in the Seattle Association is patterned after a similar credit control group in San Francisco. The success of the group in San Francisco has been quite marked.

Holds State Has Prior Claim in Tax

New York.—A decision recently handed down in the Circuit Court by Judges Swan Leonard, Hand and Manton reverses a District Court decision to the effect that the city of New York does not have prior claim for the collection of sales tax in the case of a bankruptcy adjudication. The District Court had held that the city of New York did not hold a prior claim because of its sales taxes, but Corporation Counsel Paul Windels appealed the case to the Circuit Court and won a reversal which sets out that the city sales tax is a prior claim.

Teigan Resigns As Secretary of Law League

Martin J. Teigan, secretary of the Commercial Law League of America for the last 11½ years, with headquarters at Chicago, has resigned. Mr. Teigan disclosed at the annual banquet of the New York Members' Association of the League here that he has accepted the post as secretary of the Law List Committee of the American Bar Association.

Mr. Teigan's first Commercial Law League convention was at San Francisco in 1926.

Cleveland Board of Trustees and Past Presidents Greet National President Fielden

The above photograph was taken on the occasion of the recent visit of National President Paul Fielden at the Cleveland Association. Reading from left to right those in the picture are C. H. Pomeroy, National Malleable & Steel Castings Company; J. D. Cathon, The Hoover Company; L. C. Loomis, The Geo. Worthington Company; Herman Thiessen, Oglebay-Norton and Company; J. H. L. Janson, The Cleveland Trust Company; T. G. Murphey, The Sherwin-Williams Company; Esther Bauer, National Carbon Company; Fred Roth, The Whitney-Roth Shoe Company; J. C. Knox, Swift & Company; National President Paul Fielden; W. E. Rice, retired; L. Frank Wharton, Asst. Sec. Cleveland Association; H. T. Riddick, The Osborn Manufacturing Company; B. R. Tritton, American Stove Company; H. deBeauclair, The Cleveland Wire Spring Company; L. W. Stolte, Fairbanks, Morse & Company; C. L. Whitaker, Steel and Tubes, Inc.; Hugh Wells, Secretary, Cleveland Association

Cleveland President Asks Unity

Cleveland.—John C. Knox, President of the Cleveland Association presented this very interesting message to the members of his Association in the December issue of Credit News, the Cleveland monthly bulletin, under the title "Let's Go Forward!"

"Business development today requires greater efficiency, capacity, knowledge and co-ordination. Credit is a most important factor. Wisely used, credit spells progress. Abused, it brings business decay and even destruction.

"Every phase of credit must be safe-guarded. We must improve the sources of information, encourage business ethics, further important business legislation, eliminate the fradulent, provide the best protective tools possible, study business trends, educate ourselves and elevate the credit profession.

"But—these accomplishments do not just happen. It requires organized, co-operative and planned effort. Your Association is a branch of the greatest organization in the world ever vigilant in every field of credit work."

Christmas Programs

Milwaukee.—A complete sell-out was the report of the committee in charge of the Annual Christmas Party of the Milwaukee Association of Credit Men which was held on December 18th, at the Milwaukee Athletic Club. On December 9th, it was announced that only thirty tickets remained to be sold for the Christmas Party, and by the evening of December 18th not one of the alloted number of cards remained unsold.

Pittsburgh.—The Credit Association of Western Pennsylvania observed Christmas at its luncheon meeting at the Congress of Clubs Auditorium on December 21st. Bishop A. W. Leonard of the M. E. Church in the Pittsburgh Area was the speaker. A Christmas luncheon committee was under the direction of A. Harry Gardner, as Chairman.

Los Angeles.—The Los Angeles Credit Men's Association held its 19th Annual Christmas Party on Friday, December 17th, at the Santa Monica Deauville Club. A program started off with a dinner at 8:00 and with a vaudeville review presented at 9:30. At the close of the vaudeville program dancing was enjoyed until a late hour.

Richmond. — The Annual Christmas Party of the Richmond Association of Credit Men was held at the Westwood Supper Club on December 16th. Dr. Raymond B. Pinchbeck, Dean of the University of Virginia, at Charlottesville, Va., was the after dinner speaker. After the dinner dancing was enjoyed until a late hour.

Cleveland—The committee in charge of the Annual Christmas Party of the Cleveland Association in order to encourage advance reservations placed a premium of 25c per ticket on all reservations made twenty-four hours before the annual dance which was held at the Statler Hotel on December 17th. Tickets reserved up to December 15th were sold at $2.50 per person. The afternoon of the 15th, the charge was $2.75. The Christmas Party opened with a dinner at 6:30 which was followed by eleven games of Keno with a long list of prizes offered for the winners. Prizes and favors were also distributed during the hour set aside for dancing.

Cincinnati.—Members of the Cincinnati Association of Credit Men went to the Cincinnati Club on December 18th for their Annual Dinner Dance. More than 200 were on hand to enjoy the festivities which by tradition in the Cincinnati organization is the only purely social session of the Association year.

New York, N. Y.—The New York Women's Credit Group held its annual Christmas Party at the Hotel Shelton on December 28th. A dinner served by the hotel was followed by a visit by Santa Claus and the disposition of gifts.

Furnishings Makers Issue Edict Against Assignments by Debtors

New York.—The Men's Furnishings Manufacturers Credit Group recently went on record with a strong declaration against the practice of filing assignments before calling together the creditors. The declaration stated:—"The practice of tying the hands of creditors, either by assignments or by sale of assets before creditors are called together cannot be permitted.

"When the retailer is in difficulty he should come to his creditors who in many instances have acted to help debtor stores. In addition, since creditors have a major interest in the case, they have every right to a voice in deciding how to dispose of it.

"This group will act to preserve this right by having recourse to bankruptcy proceedings. In this way, the dealer in distress will soon learn that his best course is to go directly to his creditors and give them an opportunity to act in the interests of all."

Mrs. Cottrell Quits As Secretary of Triple Cities

Binghamton. — Mrs. Thelma Cottrell who for the past several years has served as secretary of the Triple Cities Association of Credit Men of this city, moved with her family to California on January 1st. Mrs. Cottrell was the guest of honor at a farewell dinner and Christmas party given by the Credit Women's Dinner Club of the Triple Cities Association. She was presented with a pearl-set Zonta pin as a farewell gift.

Mrs. Cottrell had not decided upon her plans but hopes to make a business connection after reaching the coast.

The Triple Cities Association of Credit Men has not selected a successor for Mrs. Cottrell.

This Association recently changed its name to cover the three cities.

C.P.A.'s and "C" Men Talk Over Work

The New York Credit Men's Association joined with the New York State Society of Certified Public Accountants, the Robert Morris Associates, Bank Credit Associates, the Uptown Credit Group, and the Downtown Textile Credit Group at a big session at the Waldorf-Astoria on December 13th.

The subject of the conference was "How can the accountant, the banker and the credit man better serve the business community." David E. Golieb, Treasurer of International Handkerchief Mfg. Company spoke from the viewpoint of the credit man. Arthur H. Carter, a former president of the New York Society of C.P.A.'s spoke from the viewpoint of the accountants and Joseph A. Bower, Executive Vice-President of the Chemical Bank & Trust Company, from the viewpoint of the banker. James F. Hughes, Chairman of the Committee on Cooperation with Bankers and Other Credit Grantors, acted as chairman of the meeting and conducted the question and answer period following the addresses of the speakers.

The conference was given a state-wide importance by means of an amplified telephone hookup connecting similar meetings in Albany, Syracuse, Rochester and Buffalo. At all of these places, credit men and bankers joined with the C.P.A.'s in listening to the discussion. In this way, the discussion held in New York presented two large groups in the four other cities.

This annual credit conference is now considered one of the big programs on the calendar of the Certified Public Accountants Society.

Legal aspects of building credits

(*Cont. from page* 19) a contractor or sub-contractor constitute a trust fund in the hands of the contractor to pay all sub-contractors. The intention of this Act is to make the misuse of a trust fund in the hands of a contractor a misdemeanor under the Statute.

III

Amend the mechanics' liens law to make it a misdemeanor for a contractor to wrongfully cause material purchased to be used in a certain building to be removed from that location and placed in another building without the written consent of the material man.

IV

Clarify the rules of evidence with a view of changing the burden of proving enhancement of value to the owner instead of permitting the burden to remain on the claimant where fixtures are installed by replacing old fixtures. Under the present law the contractor and sub-contractor in most cases find themselves at a considerable disadvantage in proving up a prior lien to the mortgage encumbrance based on the enhancement value of the improvement to the building.

V

Amend the mechanics' lien law providing that no contractor may agree to secure the waiver of a sub-contractor's or material man's lien prior to payment for the labor and merchandise supplied. This provision would avoid the recent attempts by general contractors to place upon the record a contract under which all persons who supply labor or material to certain premises waive the right to file mechanics' liens in advance of supplying the labor or material.

VI

Definitely establish the rights of conditional vendors in the State of Illinois and create a sound market for installment paper issued under a conditional sales contract. It is important that the Legislature provide for the recognition of conditional sales contracts by definitely fixing its legal status. The intention of this Act would be to determine the character of certain chattels which shall be designated as personal property after their annexation to real estate independently of any agreement between the owner of the chattels and the owner of the realty. Also provide for the definite fixation of personalty by agreement between the owner on all property which can be removed without practically destroying it. Water tanks, shower combinations, sinks, wash tubs, boilers, bath tubs, plumbing fixtures, mantles, heating plants, oil burners and radiators which can be removed without any great damage or injury to the building, could be sold under title retaining contracts with the usual installment selling conditions.

Conclusion

We must bear in mind that the laws relating to mechanics liens and credits are the tools with which your lawyer shapes your legal aspects of credit. If the tools are dull and unused, you will not receive any effective results. The lawyer can secure no remedy or protection for the creditor which the law fails to provide. Therefore, the building industry should make a concentrated effort to gain legislative protection to prevent a reoccurrence of the evils which arose during the last credit collapse.

Installment and cash prices

It has been his experience that customer objection to a carrying charge on installment accounts is almost nil, a writer in "The Bulletin of the National Retail Dry Goods Association" declares. Instances arise however when the Credit Manager is pinned down to a definite statement—"Well what rate of interest is it?" To which we answer—"We don't call it interest. It is a carrying charge. It is five per cent of the unpaid purchase price at the time the contract is arranged if paid in ten months, seven per cent in fourteen months, etc."

Continuing the writer points out that if we are pinned down further, "Well, what is the actual rate of interest?", you have to answer that based on an actual interest rate it is around ten or eleven per cent. From the merchant's viewpoint that rate is not excessive and is a reasonable differential between cash and payment plan price when you take into consideration the bookkeeping and collection costs.

I do not believe that we average losing a customer once a year because of our carrying charge. The consumer public has become very much interest-minded in the last few years. As definite proof of this is the fact that automobile finance companies and banks generally have adopted this same percentage basis for selling automobiles on the time payment plan, and particularly is this so because of the recent FHA plan. Therefore, the public does know that it is paying for the privilege of buying on the installment plan.

Auto financing credit losses low

Credit losses of leading automobile finance companies have been unusually low in 1937, and will probably amount to only a small fraction of one per cent of total paper maturing during the year, according to Standard Statistics.

Higher losses are possible in 1938, it says, but even in the worst year of the past depression, losses of leading companies were only around two per cent on retail automobile business, ½ of one per cent on wholesale automobile business, and less than one per cent on industrial lien business. Terms of financing early in 1937 were easier than before the last depression, but most companies tightened their terms during the year, thus strengthening their positions.

Down payments are still high enough to provide ample protection under normal conditions. Leading companies obtain further protection by confining the bulk of their business to two-name paper, under which they have recourse to dealers to make good on repossessions.

Statement on cash discount

The American Association of Advertising Agencies has issued a statement on the standard cash discount policy of the advertising business. A resolution of the Association, included with their statement, favors maintenance of the cash discount policy and urges its adoption by media not co-operating in the policy at the present time.